


REGULATION OF CURRENCIES OF THE BANK OF ENGLAND

JOHN FULLARTON

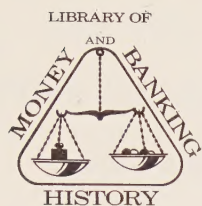




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ON THE
REGULATION OF CURRENCIES

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BEING AN

EXAMINATION OF THE PRINCIPLES

ON WHICH IT IS PROPOSED TO RESTRICT, WITHIN CERTAIN LIMITS,

THE FUTURE ISSUES ON CREDIT OF

THE BANK OF ENGLAND

AND OF THE OTHER

BANKING ESTABLISHMENTS

THROUGHOUT THE COUNTRY

BY

JOHN FULLARTON

SECOND EDITION

WITH CORRECTIONS AND ADDITIONS

[1845]



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JOHN MURRAY, ALBEMARLE STREET.
1845.

P R E F A C E

TO

THE SECOND EDITION.

WHEN the first edition of this Treatise was sent to the press in the month of August last, all questions relating to the currency seemed for the time so entirely to have lost their interest, and the disposition to acquiesce in the provisions of the new Bank Bill, as a settlement of all the great points in controversy, and an efficient and permanent remedy for the various evils which the public had been taught to ascribe to the mismanagement of the bank-note circulation, appeared to be so nearly universal, that any attempt to revive the discussion, or to turn the current of public opinion, had become an enterprise peculiarly hopeless; and I certainly had very little encouragement to expect, that it would be possible even to obtain a hearing for a new argument on the subject, and especially for an argument presenting itself in a shape so singularly uninviting as that of a close printed octavo of more than fourteen sheets of letter-press. On my recent return, however, from abroad, after an absence of some months from this country, I found the state of things considerably changed. I learned, that, since the bill had passed into a law, upon a trifling rise of the market rate of

interest, originating in various temporary causes, and accompanied by some reduction of the Bank's treasure, which had shown itself in the months of September and October, and had not yet entirely subsided, there had spread abroad a very premature alarm of an approaching pressure on the money market, which had been disquieting the minds of many, and inducing them to consider what, in the event of a crisis, might be the probable operation of this new limitation of the future issues of the Bank. Very considerable ferment, it also appeared, had been excited throughout Scotland, by the avowal on the part of Government, of an intention to propose in the ensuing session of Parliament some measure for the future regulation of the Scotch and Irish currencies. The menace was supposed to imply a design against the circulation of small notes in Scotland; and meetings of the gentry had been held and resolutions passed in almost every county of that division of the United Kingdom, deprecating in the strongest terms any such interference with their local affairs. These concurrent circumstances had contributed to rekindle at a much earlier period than could have been hoped for, the spirit of inquiry into these subjects, and to suggest doubts, even among some who had not doubted before, of the soundness of the principles on which our recent legislation in respect to banks and banking has been framed. That, moreover, under the influence of this excitement, the doctrines advocated in these pages had been attracting some small share of attention, and that in quarters where they were most likely to be judiciously appreciated, I am encouraged

by various testimonies to believe, and among others by this early call for a second edition of the work. If I have succeeded at all in eliciting *discussion*, I have succeeded to the utmost of my present views and wishes. That object gained, the ultimate issue must now be determined by the predominant force of argument, and I ought neither to expect nor desire that it should be in any respect prejudged.

I have very gladly availed myself of the opportunity afforded by this republication, to correct various inaccuracies and supply some omissions in the former impression. Though I had employed a good deal of time and care in collecting the materials from which my argument was drawn, and the bulk of my conclusions had not been formed without considerable deliberation, the actual publication was got up under circumstances of more than usual haste, partly incident to my personal avocations, and partly arising from an anxiety, which in the end proved fruitless, to overtake, if possible, the course of proceedings in Parliament. Of this precipitation I fear my readers may have discovered not unfrequent traces. On one subject, namely, the effect, under certain circumstances, of the Bank of England's purchases of gold, I have unwarily given insertion to statements, which had never been properly considered, and which, in some particulars, I am now satisfied, cannot be maintained; and I have thought it necessary in consequence to rewrite all the latter portion of the fourth chapter, commencing from p. 76.

The other corrections introduced into the present edition are for the most part too minute to require

notice in detail. The object of their introduction has, in almost every instance, been additional clearness and precision, and nothing more. In one case I found, that a mere clerical error had been sufficient to falsify an important statement; see p. 90,* where the remarkable reduction of the bank-note circulation of England and Wales, which took place between 1833 and 1842, in coincidence with the establishment of the joint-stock banks, and with an advance of ten per cent. in the numbers of the population, was represented as having occurred between 1833 and 1835. In another case, a proposition of some consequence to the main issue had been left open to misconstruction, simply through an incidental negligence of composition; see p. 181,† where the whole force of the contrast between the easy working of the scheme for the separation of the departments of the Bank of England with a reserve of *eight* millions in the banking department, and the embarrassment which might be expected to ensue, in case of the whole stock of bullion in *both* departments being reduced to *seven* millions, was nearly lost, in consequence of my having omitted to distinguish the particular *depôt* or *depôts* of bullion to which these sums of “eight millions” and “seven millions” were respectively meant to refer. These and similar blemishes I have endeavoured to remove; and whatever may be the intrinsic merits or demerits of my argument, I would fain hope that by those it may now be judged, and that it is no longer in any peculiar danger of failing from being misinterpreted or misunderstood.

By that portion of the periodical press which has

* Page 91 in the present edition.

† Page 188, do.

hitherto condescended to notice these lucubrations, they have been received with a degree of indulgence, for which I cannot sufficiently express my acknowledgments. The only adverse criticism which I have met with, requiring any particular animadversion, is contained in an article which appeared in the *Morning Chronicle* of the 20th of August, and of that I should not have a word of complaint to offer, but that it imputes to me a misstatement of facts. To this charge I have thought it necessary to reply at some length, in a note appended to p. 123.

Besides this controversial interpolation, and the necessary emendations of the text above referred to, I have taken advantage of the occasion to canvass one or two additional topics, intimately bearing on the main questions which I have undertaken to elucidate. In particular, I have thought that a few observations might not be mistimed, on a question affecting the case of the Scotch small-note issues, which has been raised into rather prominent notice by some recent proceedings, and has been the means of spreading, on this branch of the subject, a very unnecessary amount of groundless prejudice. It has been argued, as if the continuance of those issues would be a positive injustice to the body of English bankers, and even to the English nation itself; a notion which could only have originated in the most utter misapprehension of the facts of the case. This misapprehension I have endeavoured accordingly to correct, and to place the question in its true light, in a note subjoined to my remarks on the present position of the Scotch banking system, at p. 223. I have likewise,

in another note inserted at the foot of p. 235, introduced some further explanation of my views, as to the extent of benefit that may be derived from a more enlarged use of silver bullion by the Bank of England in the adjustment of the exchanges. Other points of interest will be found more briefly touched in separate notes inserted at pages 189, 192, and 201, and in the concluding sentences which I have added to the note at the foot of p. 86. And I may likewise here allude to a passing observation, which I have engrafted in the text at p. 211, pointing out the novel direction which will be given to the pressure of drains of bullion by the effect of the new regulations,—and to another remark introduced at p. 217, indicating the important action on the distribution of capital which must attend any precipitate or extensive suppression of the issues of private bankers.

A few remarks on the practical effects ascribed to the working of this portentous measure since it became law, will be found in a supplementary chapter.

London, 20th December, 1844.

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ON THE
REGULATION OF CURRENCIES;

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CHAPTER I.

Introductory Remarks—(*Note*) Prevailing Misapprehension as to the effect of the Bill of 1819—Of the Doctrine which holds Convertibility to be no security against Over-issue—Mr. Tooke's Opinions—Reasons for maintaining the Metallic Basis of our Circulation—A Circulation of Convertible Notes *must* always fluctuate on the same Principles as if the Circulation were Metallic.

THE system on which the bank-note circulation of this country has for a long series of years been administered, is just now about to be subjected to a momentous experiment, recommended by all the talent and weight of the government, after mature consideration, and in consonance with opinions which, it cannot be denied, are the predominant opinions of the day, and are obviously adopted with a sincerity which has every claim to respect. Sir Robert Peel's bill has been received, indeed, by nearly all parties whom the measure most immediately affects, with a cordiality of which there has been no example in any similar case. It has been hailed with nearly equal unanimity by Parliament, by the mercantile community, and by the press. Framed in its details with consummate practical sagacity, and carefully avoiding any direct or rude collision with powerful interests, it has disarmed the hostility even of those bodies and individuals (the issuing bankers, private and joint-stock, of the three kingdoms), whose apprehensions of some impending blow had been previously worked up to a high point of excitement by the mystery in which

the intentions of government were concealed, and who had in consequence been summoning their forces for a vigorous, though probably unavailing, resistance. These parties are now surprised and delighted to find the evil day postponed for a further period of ten years, and easily reconciling themselves to the few and not very stringent limitations to which it is proposed in the meanwhile to subject the exercise of their privilege of issue, they seem inclined to regard the measure as little less than a deliverance. Accordingly, the Bill is now proceeding through its stages in Parliament almost with acclamation, and before these pages issue from the press will very probably have passed into a law.

Amid all this marvellous harmony, it may possibly be considered an act of impertinence, especially in one who is unpractised in such controversies, to interpose a dissentient voice. Nothing certainly can be less encouraging than the aspect of the field. Setting aside the preponderance of opinion to be encountered, there is a manifest exhaustion of the public attention, and an indisposition to entertain any further discussion on the subject, which it is almost hopeless to think of overcoming by any argument promulgated through the very imperfect and ephemeral medium of a controversial treatise got up on the spur of the occasion. And if "the be-all and the end-all" of this question turned wholly on the passing of the Bill now before Parliament, and there were no good to be accomplished but by the instant arrest of its progress, the case would be simply desperate, and it were questionless a wild and absurd undertaking to attempt such an object with such inadequate means. But the question will by no means have attained its solution, with the passing of the Bill. The measure is necessarily and avowedly an experimental measure only. There are some parts of its machinery, as it appears to me, so obviously inadequate, upon any presumption in the least warranted by experience, to fulfil even what I believe to be the real inten-

tions of its authors, that before any very long period shall have elapsed, their deficiency may be forced into notice in a way neither to be mistaken nor disregarded. And, though it is not proposed at present, that the subject should be again brought under revision for ten years to come, the interposition of Parliament would probably not be withheld, should there arise in the meanwhile any circumstances of sufficient urgency to demand it. But it is not merely to those imperfections of detail, which it will be in the power of the Legislature to remedy, so soon as they are fairly perceived and acknowledged, that I am desirous of attracting attention. What is still more calculated to awake our anxiety, is the spirit in which the plan has been conceived, and the avowed purpose which it aims to accomplish. It may perhaps be exceedingly proper to regulate and restrain the issue of private notes; it may even be eventually desirable to suppress that description of circulation altogether, and to limit the privilege of supplying the country with notes to a single bank of issue. There are grave objections, indeed, to such a change. But it has at least one intelligible, plain, and practical object. No man entitled to hold any opinion at all on such subjects can be insensible to the importance of providing the country with a sound currency, and protecting the ignorant and helpless masses of population in remote districts from the worst class of calamities attending the occasional insolvency of private banks of issue. But when it is proclaimed as a principle, that the entire aggregate credit circulation of the realm, sound and unsound, metropolitan and provincial, large and small, ought to be limited to a certain fixed amount by law, when it is assumed that such a limitation would be expedient or possible, and when it is actually proposed to establish a maximum, an *arbitrary* maximum, which the notes of the Bank of England issued on credit shall not in future be permitted to exceed, and which is to continue the same, whether commerce be flourishing or depressed, in-

dustury thriving or stagnant, wages high or low, whether bullion be flowing in or flowing out, whether the population making use of it consist of some twenty-seven million of souls, as was nearly the state of things at the date of the last census, or have increased to upwards of thirty millions, which, if the rate of augmentation continue the same as in the last cycle of ten years, ought to be its amount in 1851; when a proposition of so novel and empirical a character is recommended as a fit subject for legislation, it must be apparent to every one, that the object with which you are dealing is no longer an intelligible, plain, or practical object, but that you have got into the regions of fiction and conjecture.

What may be the practical working of such a scheme no man can absolutely foretell, and past experience gives us no clue to discover. It remains to be tried. For this, it must be admitted, the times are sufficiently propitious; and, while exchanges continue favourable, interest low, and the stock of bullion overflowing, all will no doubt proceed smoothly; and the unruffled aspect of monetary affairs will be cited and allowed as a proof of the beneficial operation of the government plan. But if it is to be something more than a mere fair-weather pageant, if its principle is really and literally to be carried out, at all seasons and in all circumstances, with stern and unflinching pertinacity, it may happen that, at no very distant period, (at all events, long before the ten years of the new charter shall have expired,) contingencies may present themselves, which will put the virtues of the panacea to the test, may possibly even shake a little the general confidence in their efficacy, and rouse a fresh spirit of inquiry into the nature of those periodical hurricanes which visit from time to time the great marts of industry throughout the world, and the real extent of the means (much more insignificant, it is to be feared, than seems to be commonly imagined) by which we can hope to divert or moderate them. In the meanwhile, it is only by patient endeavours to divest the topic of those fallacies

which still inveterately cling to it, that men's minds are to be at all usefully prepared for the renewal of the discussion, when the time for it shall have arrived. Whatever may be the prevailing apathy on the subject, whatever the difficulty of obtaining a hearing on it, it is a matter of too vital and universal importance to be dropped into oblivion. Strong convictions, deliberately formed, on these abstruse and difficult questions, are not to be at once put down by authority; and when they happen to be right, must expect, in general, their ultimate vindication rather from minute and often-repeated impressions on the reason, than from any of those brilliant efforts which take the understanding by storm. To such impressions, whoever has thought much on the subject may hope to contribute his quota; and whatever may be the worth of the opinions advocated in these pages, they certainly have not been formed without considerable reflection, and a laborious investigation of the main facts and arguments bearing on the case—an investigation undertaken with no strong or decided prepossessions in favour of one class of opinions more than another, nor with any other object beyond that of discovering the truth. The confidence of the author in his results has not yet been shaken by any counter-arguments which he has heard or read, but, on the contrary, has been considerably strengthened by the coincidence of his conclusions, in most of their leading features, with those of the eminent author of the 'History of Prices,' one of the most valuable contributions to economical science which the present century has produced.

The truth is, this is a subject on which there never can be any efficient or immediate appeal to the public at large. It is a subject on which the progress of opinion always has been, and always must be, exceedingly slow. During the last quarter of a century it has undergone several long and searching investigations from both branches of the legislature; and our actual experiences within the same period have been calculated to throw

infinite light upon it. There is, therefore, no want of the materials requisite for a sound judgment; yet the state of opinion would appear, from the recent discussions in Parliament, to be scarcely at all in advance of what it was in 1819.* It is no reproach to statesmen if they have taken doctrines as they found them; for the systematic prosecution of such studies is physically incompatible with the life of a public man. On the part of those, again, whose inclinations lead them to devote their time to these intricate questions, it would seem as if the tenacity with which they hold their opinions bore a certain ratio to the painfulness of the process by which those opinions have been acquired. The class is always a very small one, while to all others the theme is so little attractive, that, where personal interests are not directly assailed or menaced, they are generally quite content to think as they are instructed. Let them once, indeed, understand that their interests are touched, and there are no bounds to the vehemence with which they will embrace and propagate opinions even the most monstrous. We all remember the popular hostility which for many years was directed against the measure of 1819, for the restoration of cash payments; a hostility by no means confined to the unreasoning herd, but conscientiously entertained by many well-meaning people of education, and even by some men of considerable talent. Whatever went amiss, whether prices fell, or trade became stagnant, or speculations failed, the blame was invariably laid on the unhappy Peel's Bill. To this origin were traced the great commercial revulsions of 1825; and every man who chanced to impair his fortune by absurd and hazardous adventures, found a salve for his self-reproaches in attri-

* The above was written previous to the debate on the second reading of the Bill; and it is but justice to acknowledge, that to some portion at least of the discussion on that occasion, the observation in the text would be inapplicable. The speech of Mr. Charles Buller in particular appears to have evinced a comprehensive knowledge of the subject, highly creditable to his industry.

buting to the Bill the consequences of his own folly and improvidence. This hostility continued to be maintained long after it had been demonstrated, by the most clear and convincing evidence, that the utmost practical change in the value of the currency which the Bill could have effected, was infinitely short of that affirmed by its opponents,* and after all their sinister predictions as to

* There is one most important circumstance, which seems to have been very unaccountably overlooked by both parties in 1819, in forming their respective estimates of the probable effect of the measure of resumption on prices, though it was in fact the main circumstance on which the whole question turned; at least I do not find the point adverted to in any of the discussions of the day which have come under my notice. When Mr. Ricardo computed at about five per cent. the fall in the prices of commodities, which was then anticipated as the inevitable consequence of a return to cash payments, "that being the extent, to which the circulating medium appeared, on a comparison with the market-price of bullion, to be at that period depreciated," he looked only to the difference then actually subsisting between the market-price and the Mint-price of gold. But even the most uncompromising partisan of the currency principle may be disposed to admit, that, as things stood previous to the law of 1819, there were other causes in existence besides the variations in the amount and consequent value of the bank-note circulation, which might have had a material influence in determining the fluctuations of the price of bullion, and therefore that those fluctuations could have afforded no accurate or certain index of a fall or rise in the exchangeable value of bank-notes.

There was, in the first place, the more or less perfect condition of the coin. It is obvious that, even with a currency purely metallic, if the coin were debased by wear to the extent, say, of three or four per cent. below its standard weight, the slightest turn of the exchange causing a demand for exportation, whether to adjust a mercantile balance abroad, or to defray a military expenditure in some foreign country, would have the instant effect of raising the price of uncoined bullion in a ratio at least equal to the extent of the degradation of the coin, even though all the while the quantity and aggregate value of the circulating medium might be wholly without variation. Since the reformation of the gold currency in 1773, indeed, this disturbing influence had been comparatively but little felt in the money-market; and in 1819, when the entire coinage had but just been a second time renovated, it must have been almost wholly inoperative.

But there was another disturbing cause of still greater potency, which at that period existed in full force; I allude to those penal laws which prohibited the melting and exportation of the coin, while the traffic in

consequences had been falsified by its triumphant and easy success. Nor have the popular prejudices on the

the metal of which that coin was composed remained perfectly free. The inevitable effect of this regulation was, on every new demand for export, to raise the market-price of the exportable stock of the metal above that of the coined or non-exportable stock, in a proportion at least commensurate to the risk of violating the law by the exportation of the latter. The exact money-equivalent of this risk has been variously estimated at different times. But this much is beyond question,—that it gave a latitude to the fluctuation of the price of bullion when under the action of any intense foreign demand, even at periods when the paper circulation was in a perfectly convertible state, of which, in the present day, we have no example. Thus, in March, 1783, bar gold rose to 81*s.* 9*d.* per oz.; and in May following, Portugal gold coin was sold at 82*s.* 3*d.*, exhibiting an excess of 4*s.* 4½*d.* per oz., or about 5½ per cent. above the Mint-price. In May, 1792, again, we find the quotations of foreign gold rising suddenly from par to 81*s.*, at which rate they were continued till September; and it further appears, that in 1795 and 1796 the Bank of England made repeated purchases of foreign gold at 81*s.*, 82*s.*, and even 86*s.*; and that, on one occasion, a small parcel, obtained through the Bank's agent in Portugal, actually cost them 88*s.* per oz.; thus furnishing an undeniable instance, under the operation of the restrictive law against the melting of the coin, of a difference very little short of 13 per cent. between the market (or, to speak more properly, the import) price of gold and the Mint-price, and all this co-existent with a perfectly convertible state of the bank-note currency.

In whatever light, then, the oscillations of the circulating medium during the six years of enormous foreign expenditure, from 1808 to 1814, may be regarded, how after this can it be said that any fluctuations of the market-price of the bullion, which occurred subsequent to the final termination of the war in 1815, could have afforded any test of the difference between the value of the whole circulating medium, as it then existed, and the value which it might have been expected to acquire in consequence of the resumption of cash payments? Almost immediately on the restoration of peace, the foreign exchanges recovered their equilibrium, and the fluctuations of the price of gold were restrained within the same limits to which their range had been restricted previous to the suspension of cash payments in 1797. Between the 10th November, 1815, and the period of the resumption of cash payments in 1821, gold bullion never again, I believe, attained a higher price than 83*s.*, and that only on one or two occasions, and for a very brief interval. On the first rise of the exchange above par in 1816, there can be no doubt but that the market-price of gold would have subsided at the same time to the Mint-price, had not the Directors of the Bank of

subject entirely subsided even at this day. No one, indeed, except a small knot of deaf and incurable fanatics,

England, in their anxiety to prepare for the resumption of cash payments, very injudiciously opened their coffers for the reception of all the gold that might be brought to them, at a price considerably exceeding the Mint-price. At that time, however, and on all subsequent occasions within the six years, from 1816 to 1821, whenever the balance of foreign payments turned in favour of this country, the market-price of gold bullion uniformly fell to the *Bank*-price; and again, when the balance of payments became adverse, and the exchange turned against this country, the price of the gold rose with the same uniformity to such a rate as would indemnify the melters of the coin for its degradation by wear and for the penal consequences of melting it, but rose no higher; in neither case, therefore, indicating any variation of the value of the currency.

At length came the bill of 1819, making the resumption of cash payments imperative upon the Bank of England within a given period of time. As a compulsory measure for this end, however, it was wholly inoperative: the object was already accomplished; and the resumption was eventually carried into effect two years in anticipation of the term prescribed by law, by the spontaneous course of circumstances, without the slightest effort, as Mr. Tooke has incontrovertibly shown, on the part of the Bank, and in coincidence with an enlargement, instead of a contraction, of the Bank issues. We have, in fact, no evidence whatever, that, from 1815 downwards, there existed any depreciation of the circulating medium, or that, when the Act of 1819 was passed, there remained in that respect anything to be rectified. But, besides the compulsory enactment relative to the resumption of cash payments by the Bank, it will be remembered, that the Bill of 1819 contained likewise a clause, by which the penal statutes against the melting and exportation of the coin of the realm were wholly repealed; and in this clause, as it turned out, lay in truth all the real pith and virtue of the measure. By this wise alteration of the law, an element of disorder was removed, which, by obstructing the free egress and ingress of gold at prices corresponding with the cost of its production, had, down to this period, been the most inveterate and unremitting cause of those violent and extreme oscillations in the supply of the metal, which experience had shown to be utterly incompatible with the sound regulation of the currency under any system. Accordingly, from 1819 to the present time, amid all the vicissitudes which the money-market has undergone during that eventful period, the market-price of gold has on no occasion risen above 78s. per oz., nor fallen below 77s. 6d., an extreme range of only 6d. in the ounce. Nor would even that extent of fluctuation be now possible; for it was solely owing to the renewed deterioration of the coin, that even so trivial a

raises any longer the cry for a return to inconvertible paper; but there still seems to lurk an impression on the minds of many worthy persons, that, however inexpedient it might be, at this distance of time, to attempt to retrace our steps, the measure of 1819 did, at the period of its enactment, work a great and pernicious

rise occurred as $1\frac{1}{2}d.$ in the ounce, or about one-sixth per cent. above the Mint-price; and the fall to $77s. 6d.$ is entirely accounted for by the circumstance of the Bank having at one time thought proper to establish that rate as the limit for its purchases. Those circumstances, however, exist no longer. For many years the Bank has been in the practice of allowing $77s. 9d.$ for all the gold brought to it for coinage; and as soon as the recoinage of sovereigns now in progress shall be completed, there will be an effectual bar, until the coin shall again become deteriorated, to any future fluctuation of the price of gold bullion in our market beyond the small fractional difference between $77s. 9d.$ allowed by the Bank, and the Mint-price of $77s. 10\frac{1}{2}d.$

With respect, again, to the effect produced on the general value of gold throughout the world, by the abstraction of so large a portion of the metal as must have been required for the restoration of metallic payments in England, a consideration which Mr. Ricardo had not taken into account in framing his first estimate of the rise of prices to be apprehended from a return to cash payments, but which afterwards induced him to raise that estimate from 5 to 10 per cent., it is a question less immediately bearing on the subject now in hand, and which it would be vain to think of discussing satisfactorily within the compass of a note. That question stands, doubtless, on quite a different footing from the other. It cannot be disputed, that so extensive an operation must, to some extent, have affected the value of the general stock of gold. But a considerable share of this effect, whatever might be its amount, must have been already anticipated by the preparations for the resumption of cash payments, which had been going forward some time previous to the passing of the Act of 1819; and there are no indications to be found, either in any change of the relative values of gold and silver, or in any of the other phenomena of the period, which at all countenance the suspicion that the action on prices approached, in any degree, to the ratio assumed by Mr. Ricardo; on the contrary, there are very reasonable grounds for believing, that the entire effect may have been neutralized, that the demand for gold for the purposes of circulation, which arose so generally in this and other countries after the cessation of the war, was not, in fact, more than the dispersion of the hoards, which, so long as the war lasted, had been withdrawn from the market, was of itself sufficient to supply.

revolution in the distribution of property, and has been most injurious in its subsequent operation on the general prosperity; and it may probably be more owing to that strong and habitual sense of probity which happily still pervades the public mind in this country, and which naturally revolts at a proposition having no other assignable or intelligible purpose than a general infraction of existing contracts, and a release of debtors from their just obligations, than to any very general advancement of intelligence on the question, that the doctrine has of late fallen so much into discredit.

This fallacy, however, has been succeeded by another, less popular in its origin, but sustained by more plausibility of argument, and a more preponderant weight of authority. It had been held out as one of the most beneficial consequences to be expected from a return to metallic payments, all obstacles to the perfect convertibility of the bank paper being finally removed, the gold standard, in respect to weight and fineness, adjusted on the most correct and satisfactory principles, and the traffic both in bullion and coin emancipated from every restriction, that the recurrence of those great and frequent alternations of price, which, during the reign of the Bank Restriction Act, had been productive of so much inconvenience and suffering, and which, since the investigations of the Bullion Committee, it had been the fashion to ascribe almost exclusively to the expansions and contractions of a currency devoid of intrinsic value, and issued under no control but from the discretion or caprice of its issuers, would for the future be in a great degree prevented; and that, once replaced on a sound metallic basis, the bank-note circulation would no longer be exposed to those sudden variations of value from over-issue, which were regarded as the principal causes of adverse exchanges and drains of the precious metals, and that there would be an end to those violent revulsions of commercial credit and prosperity, which had repeatedly been known to spread bankruptcy and

ruin. Such were the expectations entertained, but they were doomed to disappointment. Before the Act of 1819 had been much more than four years in actual operation, the world was astonished by the great commercial crisis of 1825—a more tremendous catastrophe, and attended with a more extensive destruction of capital, than any event of the same kind that had ever before been read or heard of. It was impossible, after this, to maintain, that a convertible state of the bank-note circulation afforded any sovereign specific against the vicissitudes of commercial credit. However the innocence and practicability of the measure of 1819 might have been proved, considered merely as a measure of monetary reform,—however salutary and important its ministration in providing the community with a sound and valuable medium of exchange, equally applicable to the purposes of foreign commerce and of domestic circulation,—as a curb on human cupidity and credulity, as a cure for overtrading and its consequences, it had no doubt signally failed. It might have been hoped, that a result so disappointing to many would have had the effect of rather shaking men's faith in the truth of doctrines, which had so ill stood the test of experiment, and have induced them even to doubt, whether that indissoluble and invariable connexion of cause and effect between the fluctuations of currency and the fluctuations of credit, which for a long time had been almost universally assumed, were, after all, a reality.

But theorists, and more especially controversial theorists, are not to be so easily scared from their positions. While the admirers of an unlimited issue of inconvertible paper claimed the catastrophe as a sort of triumph, and did not hesitate to ascribe all the mischief that had been done, and the still greater mischiefs that had been hazarded, to the disregard of their counsels and the folly of requiring the Bank to pay its notes in gold, the more philosophic partisans of the system of convertibility discovered, ere long, a new principle, which

entirely accounted for and explained all that had happened, without any violence to their preconceived and cherished opinions, and was therefore the very thing they wanted. They discovered, that even the most perfect convertibility, however essential as one of the ingredients of a sound system of mixed currency, is not of itself, after all, any effectual security against the over-issue of paper; that the amount of bank-notes in circulation is not regulated by the wants of those who have an equivalent to give for them, and who could equally have commanded, under the same given circumstances, the same amount of money for the performance of their exchanges, had the circulation been metallic, but simply by the discretion of the bankers who issue them; that the value of a currency depends on its quantity, and that the bankers, by this power of over-issue, are enabled at their pleasure to increase the quantity, and consequently diminish the value of the whole circulation, both paper and metallic; that the bank-notes, though they can be momentarily turned into gold at the trouble of merely crossing the street, are thus liable to accumulate in the hands of individuals under different laws from those which govern a metallic circulation, and to an extent which, with a metallic circulation, would have been impossible; that parties having sufficient security to offer, may desire to possess and be willing to pay interest for the use of bank-notes, who under the same circumstances would not have desired to possess nor have been willing to pay interest for the use of gold, or else that the banker may be content with a different measure of security from the borrower of his notes from that which he would have exacted from the borrower of his coin, though the loss to him, in case of the borrower's default, must be precisely the same in the one case as in the other; that, as there can be no *agio*, or difference of value, between the paper and metallic portions of a mixed circulation whose convertibility is perfect, every rise or fall of the value of the paper must be accompa-

nied by an equal and simultaneous rise or fall of the value of the gold, and thus the exchangeable worth of the precious metals will be made to vary, not, as in the case of all other articles, with the variations in the cost of their production, nor even with the rate of supply, for the supply can never be liable to interruption so long as the banks continue solvent, but in proportion to the varying number of existing promises to pay them; that, as a depreciation of the circulating medium is merely another expression for a general rise of the prices of all other commodities, every increase of the quantity of bank-notes by over-issue must be attended by a general rise of prices, as, on the other hand, every contraction of the Bank issues must be productive of a fall of prices; that the necessary tendency of a rise of prices in any given country, while prices continue unvaried in the countries surrounding, must be to increase the importation from those neighbouring countries of goods seeking a market, and to diminish the exports to those countries; and that the result of all this must be an adverse balance of payments, a fall of the exchange, a call on the Bank for gold to discharge the foreign debt, and then, after the drain has proceeded for a certain time, an effort on the part of the Bank to arrest it and to recover for itself a more secure position, by the contraction of its credits, followed by all those disastrous consequences which usually attend on similar revulsions.

Such are pretty nearly in substance the doctrines by which those writers on the currency, who during the last twenty years have taken the most prominent share in the direction of public opinion, have endeavoured to reconcile the actual phenomena, which the course of events since the resumption of cash payments has been continually developing, with the principles promulgated by the Bullion Committee. It follows as a corollary from those doctrines, if they are worth anything, that the oscillations of price and exchange, of which we have been speaking, with all their accompaniments of drain, panic, and bankruptcy,

may be effectually corrected, if you can only deprive banks of the power of over-issue, and that they are accessible to no other remedy. The great object to be aimed at, we are told, is to restrain our bank-note circulation within such limits, that its fluctuations shall at no time exceed the fluctuations of a pure metallic currency. Could that only be accomplished, all would be well. And it is in furtherance of this object that the Government now proposes to place on the credit-issues of all the banks a limit which shall never in future be exceeded.

Extensively, however, as these views of the principles of the currency have undoubtedly found acceptance, they have not been permitted to pass altogether without question. They have been assailed by Mr. Tooke with an array of facts and a force of argument which, on a more popular topic, and before a fuller and less biassed judicature, must have proved, I think, irresistible. That even as it is, they should not have excited a larger share of attention and inquiry, and should still be so little understood, is only another and more remarkable proof of the slow progress of opinion on all questions of this nature, and of the little disposition which exists on the part of any but a few studious individuals to investigate or consider them. It is clear that those reasonings have not yet made their way to high places; and we even find individuals setting themselves up for public instructors, who would seem to have heard of them only now for the first time. Mr. Tooke's propositions, as expounded by him in his recent pamphlet on the 'Currency Principle,' are described as "startling." They startle some of the writers for the public press, they startle even Sir William Clay;* though why they should startle any one who had taken the trouble of making himself acquainted with the supplementary volume of the 'History of Prices,' published in 1840, I am at a loss to conceive, for there is no principle or opi-

* See Sir William Clay's 'Remarks on the Expediency of restricting the Issue of Promissory Notes to a Single Issuing Body,' p. 30.

nion, I believe, advanced in Mr. Tooke's late publication which may not be found in his book of 1840, and I will not suppose that to any writer on the currency that accurate and profound treatise can be wholly unknown. Truth, however, will in the end prevail, and there are not wanting indications that, however slowly, Mr. Tooke's reasonings are working their effect. On the question of prices, some even of the more candid and intelligent followers of the currency school begin to speak with less confidence of the invariable connexion between the fluctuations of price and the fluctuations of the quantity of money in circulation. Mr. Jones Loyd has gone the length of admitting, that it might be difficult "to point out any period, characterised by a strong spirit of excitement and rise of prices, in which circumstances may not be shown to have existed, unconnected with the circulation, sufficient to account for the *origin* of this state of things."* And Mr. Hubbard discards altogether the idea, that prices can be influenced at all by local variations in the quantity of the circulating medium, whether that medium be convertible or metallic, unless there be some permanent variation in the cost of producing the metal,† and relies exclusively on the fluctua-

* See Mr. Loyd's 'Second Letter to J. B. Smith, Esq.,' p. 24. Mr. Loyd, in his pamphlet entitled 'Remarks on the Management of the Circulation,' had previously expressed himself in terms of considerable perplexity and indecision as to the nature and extent of the connexion between "fluctuations in prices and variations in the amount of the circulating medium," and, in a note annexed, had referred to Mr. Tooke's views on the subject, which he merely contrasts with those of Mr. M'Culloch, without adding a word either in the way of condemnation or approval.

† While I entirely concur in Mr. Hubbard's conclusion, I am not sure that I quite so clearly understand the process of reasoning by which he arrives at that conclusion, nor, if I did, that I could give it the same unqualified assent. While, in the early part of his ingenious but somewhat desultory argument,—an argument which he has moreover confused, by classing with the fluctuations of real price those purely nominal and apparent variations proceeding from changes in the denomination of the coin, as if the two phenomena had any thing in

tions of the market-rate of interest, which usually accompany the expansions and contractions of credit, for the

common,—while Mr. Hubbard, I say, in the early part of his argument, lays it down as one of his principles, that, though “the primary and ultimate criterion of price be the cost of production, the qualifying and immediate regulator of price is the proportion of supply to demand,” he proceeds afterwards to reason as if this principle applied only to the fluctuations in the value of commodities whose prices are to be measured, and not in those of the value of the metal which serves as the standard of admeasurement. “Gold,” he contends, “is the currency of the commercial world;” and “the efficiency of gold, as an indicator of value, is unaffected by its quantity being greater or smaller in any particular country.” Again,—“The diminution of money under consideration” (that is, the diminution occasioned by the transmission of any given quantity of gold from one country to another,) “is merely local; the cost of procuring gold has not altered; the sum of gold in the market of the world remains unchanged; and the amount of commodities remaining unchanged, the relative value of gold to commodities must also remain unchanged.” Now, if this proposition is to be understood in the sense which Mr. Hubbard’s expressions would seem to warrant, though it probably may not be the sense intended by him, it would go the length of negating altogether the possibility of any local variations in the exchangeable value of the precious metals, from circumstances affecting the rate of their local supply. But though, owing to their qualities of superior durability and portability, the regular supply of the precious metals is less liable to be disturbed by temporary obstructions than that of most other commodities; yet, to the extent of such obstructions, there can be no ground for assuming that, as articles of commerce, they are in any degree exempt from the operation of the general law; and we accordingly have daily proof, in the comparatively considerable fluctuations of the market-price of silver, wherever silver (as is the case in this country) does not constitute the standard money of the realm, that, without supposing any permanent change in the cost of production, the local value of the precious metals may be affected to an extent not unimportant by the variations in the rate of supply. It is only, as we shall presently see, when one or other of these metals is adopted, either generally or in some given country, as the standard or legal medium of exchange, that circumstances arise which neutralize in a great degree the action of any accidental irregularities of supply on the local value of the metal, and prevent prices from being influenced to any sensible extent, if at all, by its fluctuations. I should infer, from what follows, that Mr. Hubbard perceives this distinction, but he does not. I conceive, sufficiently explain it by the exposition which he gives of the principles which regulate the distribution of the precious metals throughout the world.

means of restraining the issue of bank-notes within the same limits, which confine the fluctuations of a purely metallic currency,—an object which, in common with Mr. Loyd, he nevertheless holds to be of paramount importance. Until within these few weeks, however, there has been no attempt on the part of any of the unconvinced to grapple fairly with Mr. Tooke's arguments; and if those arguments are to be successfully combated, it must certainly be with other weapons than those employed by Sir William Clay and Colonel Torrens.

There are circumstances, too, independant of the distastefulness and intricacy of the subject, which may be supposed to have contributed to delay the triumph of those arguments. In the first place, they have never, till very lately, been brought before the public in a condensed or popular shape, but have had to be searched out among the dry details of a statistical work, in which few general readers have the courage to look for them. Secondly, Mr. Tooke himself has been exceedingly slow in following out his original conclusions on the subject of price to all their consequences. The germ of his present opinions may be traced in the facts, which he collected and laid before the public in the first edition of his great work; but at the time of that publication in 1823, Mr. Tooke's mind appears to have been still strongly imbued with the prevailing notions, that prices are liable to rise and fall with the increase or diminution of the amount of bank-notes in circulation, that banks have it in their power to increase at pleasure the quantity of paper money, and that the efflux and influx of gold are to be regulated by regulating the issues of the banks. He adhered to these doctrines even after he had refuted them by his discoveries, and seems to have parted with them at last only by degrees and with reluctance, under the pressure of his growing convictions. The progress of those convictions may be traced through their successive stages in his various publications, and in the evidence delivered by him before diverse Par-

liamentary Committees. His pamphlet on the Currency, published after the crisis of 1825, might, for aught to the contrary that can be gathered from its doctrines, have almost been the production of Mr. Loyd or Mr. Norman. It is in his examination before the Commons' Committee of 1832, that we perceive the first decided indications of the revolution which was gradually taking place in his mind, though even then he had not yet brought himself to discard entirely the old theory of prices, but professed himself still ready to admit that prices are liable to be influenced by the amount of the circulating medium. The second and altered edition of his work on prices, published under a new title in 1838, exhibits in a more elaborate shape the conclusions to which his continued observations had led him; though, even in those volumes, passages of the original treatise have been retained, which do not seem altogether in harmony with the new doctrines which he had espoused. Nor was it till the appearance in 1840 of his 'History of Prices in 1838 and 1839,' that the system which he had been so long maturing received its full development. These slight appearances of wavering, which, rightly viewed, ought rather to be considered as proofs of the caution and deliberation with which he formed his judgments, have been charged against him as inconsistencies, and advantage has been taken of them to detract from the weight of his authority. I may lastly venture to state, that, important as Mr. Tooke's services have been in the elucidation of this department of political economy, it does not appear to me, that he has even yet quite exhausted his subject. There are some considerations, which seem to have been hitherto overlooked by him, or have but slightly engaged his attention, which I am nevertheless disposed to regard as of essential importance to the completeness and consistence of his theory, and not less so to the fulness and effect of his argument. It is chiefly in the hope of contributing something, however imperfect, towards the supply of this deficiency,

that I have been induced to hazard the present publication. In doing this, I shall endeavour to address my argument as much as possible, and with as much compression as the necessity of making myself intelligible will permit, to the questions immediately in hand, and which have a direct bearing on the impending measure of Government. Any attempt to follow out and elucidate in all their details the innumerable topics which present themselves in this wide field of discussion, would be utterly incompatible with my limits, and could only ensure the defeat of the object which I have in view. I am sensible, moreover, that it must be chiefly by acting on the convictions of those who have made the subject their study, that the public judgment on a question of this nature is ultimately to be won, and that many explanations may probably, therefore, be dispensed with, which could not with the same safety be omitted in an elementary treatise.

Let my views, however, not be misunderstood. Let it not be supposed, for a moment, that I am indifferent to the expediency and importance of maintaining intact the metallic basis of our circulation, and providing by the most judicious means of security that can be devised, for the perfect and uninterrupted convertibility of our bank paper. I do not, indeed, profess to look back with all the horror testified by some at the epoch of the Bank Restriction. I look upon that measure as a measure that was greatly to be deprecated, and productive of many inconveniences. I believe that it might have been exceedingly dangerous, but for the singularly perfect adaptation of the machinery through which it was administered. I think it was continued quite long enough, and never desire to see it revived. Yet I do not hesitate, at the same time, to avow, that I consider it to have been the wisest course which, under the actual circumstances of the country, could have been adopted, nor to express my full conviction, that the suspension of cash payments had nothing like the share

which has been commonly supposed, in producing those violent alternations of price, which accompanied the transitions from peace to war, and from war to peace, but that nine-tenths of the mischief imputed to that cause by one party, and of the good ascribed to it by another, were equally imaginary. It may not, perhaps, be very prudent to make these declarations, when, from want of space, I am not in a condition to justify them; but I must submit to any censure which they may draw on me from extreme partisans on either side, rather than fail to be explicit.

That, as far as concerns our domestic exchanges, all the monetary functions which are usually performed by gold and silver coins, may be performed as effectually by a circulation of inconvertible notes, having no value but that factitious and conventional value which they derive from the law, is a fact, which admits, I conceive, of no denial. Value of this description may be made to answer all the purposes of intrinsic value, and supersede even the necessity for a standard, provided only the quantity of the issues be kept under due limitation. A plate of brass, a piece of leather, a scrap of water-marked paper, are things without any worth in themselves which can qualify them to perform the office of equivalents in the transactions of commerce; but stamp any of these articles with an inimitable mark, issue them in defined numbers for a valuable consideration, call them money, let them be received in payment of all public taxes and dues, and make it imperative by law on every man to provide himself with enough of this money for the discharge of all obligations incident to the common dealings of society, and you invest it at once with a value in exchange, wholly independent of its intrinsic properties, and bearing an exact ratio to the demand which you create for it. Of this description are the government paper currencies of the Continent, which in almost no instance derive any portion of their credit from the expectation that they will be ultimately discharged in coin. Of

this description were the issues of the Bank of England during the continuance of the Bank Restriction Act, for that measure was equivalent to an absolute discarding of the standard. It must be acknowledged, that a currency constituted on this principle has a great and not unimportant advantage over a circulation of which the precious metals form any considerable part, on the score of economy. But, on the other hand, it is open to objections which no mere pecuniary saving, I apprehend, could adequately counterbalance.

In the first place, the value of such a currency is entirely governed by its quantity, and we have no regulating principle by which that quantity can be kept in exact proportion to the transactions which the currency has to perform. It has been suggested, indeed, that this value might always be kept on a level with the value of either of the precious metals, by noting carefully the fluctuations in the market-price of the metal, as measured by the currency, and by enlarging or contracting the issues in a corresponding proportion. But this would not be sufficient. Even if there were no other obstacles to the practical working of the rule, and we could depend on its being at all times honestly and strictly administered, it is quite a mistake to suppose, that the market-prices of the precious metals would observe the same range of fluctuation, when those metals should be reduced to a common footing with other commodities, which they observe when constituting the circulating medium of a community. It is only because gold and silver are money, that they are ever accumulated in large quantities in any particular locality. No stock is so little profitable to the merchant. And the countries which produce them are situated at such a distance from the more civilized quarters of the globe, that no single community has the power of replenishing its stores upon any sudden demand, except by drawing on the stores of its neighbours. The necessary consequence is, that, in a nation which has once

parted with its circulation of metallic coin, the supply of the precious metals becomes a matter of great uncertainty, and those metals cease then altogether to be fit indicators of value. Every person, who has given the slightest attention to the history of our currency, must recollect the memorable fluctuations of the hundred days in 1815; that, on receipt of the news of Bonaparte's landing from Elba, the price of gold in the London market rose 10 per cent. in one morning, and that without the slightest alteration whatever in the amount of the inconvertible issues of the Bank; that, in the course of a few days more, the advance of price amounted to 20 per cent., and that this advance was maintained until after the battle of Waterloo, when the price of gold fell nearly as rapidly as it had risen, and in a manner equally unaccounted for by any corresponding movement of the Bank circulation. Than the *rationale* of these phenomena nothing can be simpler. A crisis had suddenly arisen which called for an instant and vast supply of gold, at whatever cost, for the equipment of armies, the remittance of subsidies, and the repletion of military chests; there was no time to wait till this supply could be brought from countries where there was gold in abundance; it must be procured on the spot, and that spot was one from which nearly all hoards of the precious metals had long been swept away. The price of gold, therefore, rose precisely on the same principle on which the price of corn rises in a famine; it rose to a famine rate, and again fell the moment the famine demand had ceased. And this great fact at once affords the most satisfactory demonstration of the futility of any scheme for testing the value of conventional notes by the price of gold, and furnishes the most unanswerable refutation of the theory which would ascribe all the variations of the price of gold during the continuance of the Bank Restriction to the fluctuations of the Bank issues.

In the second place, there is not, I believe, a single

example on record, of the power of creating money out of cheap materials having been exercised by a sovereign state for any length of time, or through any season of public difficulty, without having been abused. So long as the whole supplies of the year are raised by means of taxes and loans, no great mischief can befall; for the paper which the state issues in its payments will, in that case, all flow back again regularly in the shape of loans and taxes, and there will be no surplus left to accumulate in the hands of the public. But say, that the nation is once embarked in a destructive and expensive war, with little prospect of bringing it soon to a termination, that the revenues are failing, the government at its wits' end to discover some new tax that will supply the deficiency, and the impatience of such exactions on the part of the people already at its height,—the temptation to substitute issues for taxation, to relieve the wants of the treasury, by intercepting, through the depreciation of the currency, a portion of every payment in its transit from the pocket of the debtor to that of his creditor, becomes too strong to be resisted, and the iniquity is, probably, perpetrated with the general acquiescence of a community, who are scarcely aware of its tendency. The career of debasement once entered upon, it has no pause, till there is scarcely any value left to be destroyed. And if, in this country, the portentous experiment of the suspension of cash payments was not followed by the same disastrous consequences which attended the issues of the Mississippi notes and the assignats in France, and of the several paper currencies put forth by the principal states of northern Europe, it was because the inconvertible notes were disbursed, not in the *payments* of a government, but in the *loans* of a bank, because the vast resources of the nation enabled the Government, to the last, to raise all its supplies for the year either by taxes or by loan, and because, whether the Bank of England advanced its funds to Government or to individuals, no impediment ever arose to the

punctual return of those funds into its coffers. Much credit has been claimed for the moderation and self-denial with which the Directors of the Bank exercised the very extraordinary powers intrusted to them, and to which are attributed the very different results of their administration of a currency of inconvertible paper from those which have attended all similar enterprises,—nor have I any wish to detract from that credit; but the truth is, that the Bank was fenced round and protected by the peculiarities of its own constitution, and by the whole financial system of the state,—a fortuitous and fortunate combination of precautions, which nearly precluded the possibility of its committing any great error, however it might have been inclined, and without which all the moderation and self-denial of its Directors might have been exerted in vain.

In the third place, I hold it to be not the least of the advantages accruing from the use of a metallic standard, that it furnishes us with a medium of exchange not only available for the purposes of our domestic circulation, but calculated to facilitate our commercial intercourse with all the other nations of the world. A conventional currency is the creature of the law, and it is only within the range, in which the law which creates it prevails, that it can serve the purposes of money. For our dealings with foreign nations a store of the precious metals is indispensable. Without a free and ample command over those metals, we should neither possess the same prompt means as heretofore of equipping an army for foreign service, or of succouring an ally; nor could we depend on procuring, with the same facility as now, or at an equally moderate expense, a supply of foreign corn, in case of a deficient harvest. I look upon all these to be great national objects, with which no considerations of mere economy, in the working of one system as contrasted with another, ought to stand for a moment in comparison. To part with our gold coin would, in effect, be equivalent to a surrender of power, both poli-

tical and commercial. Nor are we entitled at all to leave out of account the frightful aggravations of calamity, to which such a measure of isolation might expose the population, if, by any turn of human events, such as foreign invasion or internal revolution, the laws should for a time be rendered inoperative, and with them the whole fabric of artificial value at once annihilated.

No reasonable person, I conceive, who will take the trouble of weighing carefully all these considerations in his mind, can hesitate, on the whole, to pronounce in favour of a convertible as opposed to an inconvertible system of currency, in whatever light he may regard the temporary departure from the standard which was permitted by the Bank Restriction Act, whether he may view it as a measure in which the good preponderated over the evil or the reverse, as a measure justified by the peculiar and irresistible circumstances of the times, or an infringement of principle unjustifiable under any circumstances. But we are told now, that, in order to preserve a mixed circulation of gold and bank-notes from depreciation, it is not sufficient that the bank-notes should at all times be convertible into coin; that, notwithstanding such convertibility, the notes may still be over-issued in such quantities, as to raise the prices of all the commodities in the kingdom and to cause the exportation of the gold, and that, to prevent such derangements, it is indispensable that the bank-note circulation should at all times be made to fluctuate exactly as a purely metallic circulation would have fluctuated. On these propositions I am content at once to join issue. I deny, that we have any evidence of such a redundancy of circulating bank-notes having ever existed in coincidence with a really convertible state of the currency, as to raise prices or to cause an efflux of the precious metals, or that such a redundancy under such circumstances is possible. And, as to *making* a bank-note circulation fluctuate exactly as a pure metallic circulation would have fluctuated, I do not see how that

can be constituted into a duty, until it be first shown that they ever fluctuate differently. As a general principle, indeed, I am quite free to admit, that the increase or decrease of a circulation of bank-notes, from whatever cause it may proceed, ought to correspond with the increase or decrease which a currency of metallic coin would exhibit under the same circumstances. But I go further than this : I contend, that there not only ought to be such correspondence, but that there always is ; that, wherever the convertibility of the paper is perfect and secured from all delay or impediment, the coin of full standard value in weight and fineness, and the traffic in the metal, whether coined or uncoined, absolutely free and unrestricted, there the Bank issues, if left to themselves, must necessarily fluctuate in conformity with the principles which govern the supply of the standard metal, and it is only from the intervention of some such arbitrary and empirical system of restraint as is now projected, that this conformity runs any risk of being disturbed.

CHAPTER II.

Controversy as to what is Money—Of Credit as a Substitute for Money, and of Bank-Notes as a form of Credit—The effect of all forms of Credit, when employed as Money, is alike ; but it is only when so employed that they partake at all of the Monetary character—Credit considered as a vast and inexhaustible element of Monetary Power—Practicability of finding a Substitute for Bank-Notes—Base Currency of Ireland in 1804.

BEFORE, however, any profitable discussion can be entertained on the question propounded in the preceding chapter, we must endeavour to come to some common understanding as to the meaning of the terms we employ, and as to what are the real points in debate. Much importance seems to be attached by some to the application of the term “ money.” Gold and silver coin, as the universal medium of exchange, have enjoyed that designation from time immemorial ; and with respect to these there is no dispute. The value of gold and silver has varied largely in different ages of the world, according as the mines from which those metals are drawn have been more or less productive ; and it is not questioned, but that every important change in the cost at which a given quantity of these metals can be brought to market, and by consequence every corresponding change in the actual aggregate quantity of them in existence, must, sooner or later, affect the universal prices of commodities. Neither is it disputed, that those conventional instruments of exchange which derive their value from authority, the inconvertible notes and tokens issued by or under the sanction of sovereign states, the assignats of France, or the Wiener Whärung of Austria, are entitled, with all their imperfections, to the appellation of money, or that they belong to a common category with gold and silver, their value, like that of

gold or silver, fluctuating with their quantity, and those fluctuations affecting in like proportion the prices of commodities, as the same are estimated in each particular currency. The only difference between the two cases is, that the variations in the value of gold and silver depend upon circumstances over which the governments and communities which make use of them as money have no direct control; whereas the fluctuations in the value of a conventional and inconvertible circulation are determined entirely by the discretion of the authority which administers it.

But, as the relations of commerce extend themselves, and nations advance in industry and wealth, credit becomes gradually a more and more important engine in the mechanism of the social system, and men begin ere long to discover that, by the simple intervention of credit alone, nine-tenths of their transactions of purchase and sale may be conveniently and economically adjusted, without any interchange whatever of actual value, whether intrinsic or factitious. Hence the introduction into use of the bank-note. But the bank-note is only one, and scarcely even the most important, of the various forms in which credit may be employed to facilitate exchanges. And you cannot, therefore, include the bank-note under the generic designation of money, without finding yourself immediately embarrassed by the claims of bills of exchange, bankers' cheques, and a variety of other typifications of the same principle of credit, all of which being more or less competent to perform, and, in point of fact, performing the functions of money, and some of them on a scale of vast extent, have *primâ facie* just the same pretensions to be rated as money which bank-notes have. The war of pamphlets on this head, and more particularly the controversy as to whether or not bank deposits are money, which so unprofitably occupied nearly half the time of the Committee of 1840, are too recent to be forgotten. And even to this day, so far are these discrepancies of opinion from being re-

conciled, that you scarcely find two individuals who, whatever may be their concurrence in other respects, are exactly agreed as to what constitutes money and what does not. Each seems to consider himself at liberty to pursue his peculiar crotchet in regard to these verbal distinctions, without any reference to the substantial matter in debate; and the whole subject has thus been plunged into the most indescribable confusion.

Mr. Norman and the other more undoubting partisans of the currency theory, who uniformly speak of bank-notes as identical with sovereigns, who even venture to compute the rise and fall of prices by a scale proportioned to the increase or diminution of the issues of the Bank of England, according to a stated ratio of five per cent. for every million of notes,* and who fancy that the Bank has at all times the power of determining with certainty the influx or efflux of gold by the contraction or enlargement of its note circulation,—these gentlemen show a peculiar indisposition to admit the pretensions of any form or denomination of credit other than bank-notes to rank as money. They have settled in their own minds, that the variations of price and exchange in this country are wholly governed by the numerical fluctuations of an aggregate currency of bank-notes and gold, amounting for all England and Wales to perhaps about sixty millions sterling; and grant them only an effectual control over the twenty millions of notes of the Bank of England, which constitute about a third part of that aggregate, they make no doubt but they should be able to put a curb on those variations, and so bring the whole system into some sort of conformity with their theory, and hold the elements of speculation for the future in their own hands. When, therefore, they are told, that these sixty millions of notes and coin do not constitute one-tenth, perhaps not one-twentieth, of the effective money of the country; that there are seventy

* See Mr. Norman's Evidence before the Commons' Committee of 1832, on the Bank of England; Report, p. 177.

millions of deposits* in the hands of bankers, which deposits are continually performing the offices of a circulating medium by transfer from one banking account to another; that bills of exchange applicable to similar purposes are constantly circulating, to the estimated amount (according to one statement) of about three hundred millions† in the metropolis, exclusive of a large amount of circulating paper of the same description in the provinces; that, to say nothing of the multitude of notes of hand, India bonds, and other transferable securities and debts which are floating in the market, there are twenty-seven millions of Exchequer Bills in a continual course of transit from hand to hand, and about the same amount yearly issued from the Bank in dividend warrants, both descriptions of document transferable by delivery, and wanting only a more convenient scale of subdivision into even sums to be either of them competent to supply the place of the whole bank-note currency; that a large proportion of the wages of manufacturing industry in different parts of the country is paid through the medium of truck or barter; and, what is the most important circumstance of all, that probably nine-tenths of the whole commercial transactions of the realm are adjusted without the intervention either of coin or notes, or of any one of the expedients above enumerated, by a simple process of set-off, either transacted through the London clearing-house,‡ or by means

* This is Mr. Norman's estimate of the average amount of deposits in the banks of England and Wales. [See his Evidence before the Commons' Committee of 1840 on Banks of Issue; Report, p. 205.]

† This is Mr. Burgess's computation, as quoted by Mr. M'Culloch, in one of the notes appended to his edition of 'The Wealth of Nations,' p. 296. It cannot, of course, be entirely relied upon, for all such calculations must be, more or less, conjectural; and other inquirers have not made the amount so much. But there can be no doubt of the immense magnitude of the sum, and anything like an approximation is quite sufficient for our present purpose.

‡ In 1810, the average amount of cheques and bills passed daily through the clearing-house was estimated by Mr. Richardson at five millions. [See his Evidence before the Bullion Committee; Report,

of a widely extended system of mutual interchange arranged between the different banks throughout the country ;—when all these facts, and the inferences which they suggest, are paraded before these controllers of the currency, it is no wonder that they should be horror-struck at the bare idea of admitting to a parity with gold and silver this overwhelming and utterly unmanageable monetary power, before which the twenty millions of Bank of England notes, about which they have been giving themselves so much concern, sink into comparative insignificance, and all their puny plans for correcting the aberrations of price and exchange must forthwith melt into air. The very life of their system is at stake on the issue ; and we can no longer wonder at the spirit of cavil and pertinacity, with which they scout the idea, that any of these modifications of credit can possibly be “ money.” Let this term “ *money*,” however, only be got rid of, and all will be well. Wise men have pronounced, that movements of price or exchange are determined solely by the quantity of “ *money*” in circulation. Unless, therefore, it can be demonstrated, that these denominations of credit are “ money,” they cannot interfere with our control over prices and exchange. So much is there in a name ! Mr. Norman settles the question, as he seems to conceive, still more effectually, by entitling these several developments of credit “ expedients for economizing the use of money.” He even allows, that incidentally, for short periods, and to an insignificant extent, they may act on prices. A reduction of the deposits in the Bank of England through the operation of a foreign drain for gold, he says, “ has a very trifling effect, if any, on prices, while the reduction of circulation has *of course* a great one.”* And, with respect to bills of exchange, he admits, that “ *perhaps,—occasionally,*

rep. in 8vo. p. 230.] The total aggregate amount of payments passed through the clearing-house in 1839 was 954,401,600*l*.

* See Report of the Commons' Committee of 1840 on Banks of Issue, p. 146.

—*for a short time*, they uphold a partial range of prices not warranted by the amount of *money*” (that is, as explained in a preceding page, by the amount of “gold and silver or their substitutes bank-notes,”) “in circulation;” but that they possess “no power of maintaining prices for any considerable period at a higher level than that fixed by the precious metals.”* Mr. Jones Loyd, again, in his evidence before the Committee of 1840, does not dispute that the great majority of payments in Lancashire were at that time performed by means of bills of exchange, nor that at a preceding period the amount of bills of exchange circulating in that quarter of the kingdom “bore a proportion as ten to one or more to the gold and Bank of England notes.” He admits as a truth that those bills did circulate, and that they did perform all the offices which money usually performs. But still he contends, that “bills of exchange do not circulate *as money*!” and why? Not because there is any doubt as to the fact, but because he considers, that “the nature of bills of exchange, their character, their functions, the circumstances in which they originate, and the effects which they produce, are totally different from those of money.”†

There are those, however, who, concurring generally in the opinions of Mr. Norman and Mr. Loyd as to the principles which govern prices and exchanges, venture nevertheless to take a bolder view of the question as to what constitutes money. Mr. Page and Mr. J. B. Smith, as also Sir William Clay in his pamphlet recently published, all contend for the extension of the appellation to deposits in the hands of bankers, as well as to their promissory notes; and Sir William Clay, by adding the computed sum of all the deposits in all the banks throughout England, to the bank-notes and coin, makes the aggregate quantity of money circulating in this

* See Mr. Norman’s ‘Letter to Charles Wood, Esq., M.P.,’ p. 46.

† See Mr. Loyd’s Evidence before the Committee of 1840 on Banks of Issue, p. 273.

division of the United Kingdom amount to no less than between 150 and 175 millions sterling; a sum of itself,* one should think, rather formidable for the controllers of prices and exchanges to cope with. In attempting to trace the exact meaning of the parties who propound these and similar calculations, it is not always easy to make out, whether, in applying the designation of money to any of the great classes of circulating credit, they intend to include the whole class in question, or merely that portion of it which from time to time is called to perform monetary functions. Thus, we are led to infer from the expressions used by Sir William Clay, that when he speaks of the deposits in the Bank of England as money, he applies the term to the entire mass of those deposits, just as Mr. Leatham,† in his zeal to exalt bills of exchange to the highest station in the lists of the currency, astounds you with the whole aggregate array of bills assumed to be in existence at the period given, without thinking it necessary to draw any distinction between the portion of those bills which really circulates as money, and the far larger portion which is held by capitalists as a productive investment. Others, again, are disposed to rank as money only that share of the bank deposits, estimated at about a third of the whole, which corresponds with their average range of fluctuation, and occupies the interval between their lowest and their highest level. While Mr. Page and Mr. Smith, in the true spirit of their school, trace the bank-note into the deposit, and seriously affirm it as their reason for treating a deposit in the Bank of England as money, that the deposit consists usually of notes which had been previously issued by the bank, and are only brought back by the depositor for temporary custody; thus reconciling their argument with the fundamental doctrine of the sect, that, of all the forms of credit, bank-notes alone are

* See Sir William Clay on the 'Expediency of restricting the Issue of Promissory Notes,' &c. p. 24.

† See Mr. Leatham's 'Letters on the Currency,' p. 10.

money, and identifying with money only that class of deposits which by the process in question has been already identified with notes. "Deposits," says Mr. Smith, "are Bank of England notes in the Bank of England."* "A credit," says Mr. Page, on the other hand, "in the books of a bank of issue is *not* currency, because I may not act upon it; and if I act on it, it must be fulfilled either out of money which exists or which is to be created."† So that the question whether a transferable claim on the Bank of England is money or not, is made entirely to depend on whether the Bank retains a memorial of that claim in the shape of a certain number of water-marked documents called notes, or simply gives credit for the sum in its books; and if the notes paid in by the depositor should be cancelled or re-issued to some other party on the day following, the deposit would then, I presume, on Mr. Page's principle, cease to be money, for in that case, according to Mr. Page, the credit could only be fulfilled out of other money "already existing, or out of money to be created!" The whole virtue lies in the note!

But enough of this intolerable trifling. Let us try, rather, for a moment to recal our attention to the important assemblage of facts before us, and see if it be not possible to disentangle a little all this skein of fallacies, and arrive at some really trustworthy and intelligible conclusions. In this endeavour, a suspicion must naturally, I think, cross every one's mind at the outset, that a classification of phenomena which seems to have given origin to so many perverse discrepancies of opinion, can scarcely be in itself a very just or sound one. I am far from being inclined to attach an undue importance to any merely technical or verbal distinctions. But, I own, it does appear to me, that some portion at least of the errors and perplexities which, in this instance, have so much impeded the satisfactory development of a great

* See Report of the Commons' Committee of 1840 on Banks of Issue, p. 4.

† Ibid. p. 62.

practical question, might have been avoided, had the use of the term "money" been always restricted, according to its proper and original sense, to denote those instruments of exchange only which derive their power from their positive value. Gold and silver coin pass current in exchange for all sorts of commodities, because gold and silver are themselves commodities of value, and furnish the buyer and seller with a convenient equivalent that is universally in demand. Inconvertible government notes, though valueless in themselves, acquire a value in exchange, as has been shown, from the conditions annexed to their emission, and by reason of that value are received in exchange for commodities precisely on the same principle as coin. These two descriptions of circulation, therefore, fall naturally under a common head; and the phrase "money" may by a fair analogy be applied equally to the one as to the other. The operations performed by both, but more especially those performed by the coin, partake to a greater or less extent of the nature of barter. But when, in the progress of society, credit comes to perform an important part in all mutual dealings, and in the great majority of transactions supersedes the necessity for this interchange of equivalents, an entirely new principle is brought into play, and one governed by distinct laws. Credit becomes then the legitimate substitute for money, but, in all its modifications and phases, it is distinguished by a broad and impassable line from money itself. The real question then to be considered is, not whether this or that particular form of credit be entitled to the designation of "money," but whether, without a perversion of terms and an outrage of principle, that denomination can be applied to credit in any shape.

Now, what are bank-notes but a form of credit? What are they but credit parcelled out into small and even sums, for greater convenience in circulation? Each note is simply a transferable acknowledgment of a debt due from the banker to the first recipient of the note, and which he (the banker) promises to

pay on demand ; the value which it purports to convey is that which it enables the holder to command by sending it to the bank from whence it issued, and no other ; and it is a value, which rises and falls with the value of the money which it represents, whether that money be metallic or conventional,—for a circulation of bank-notes may have either indifferently for its basis. Every adjustment between debtor and creditor accomplished by the intervention of credit, whether that credit be in the shape of bank-notes or any other, must be considered, I conceive, in the light of a deferred payment. When the holder of a bill for a thousand pounds surrenders it to the acceptor, on receiving the note of some joint-stock bank for the same sum, the transaction may be final between the parties, but it amounts in reality to nothing more than the exchange of one transferable security for another. The risk of realizing the value for which the note is given may indeed be so insignificant, that the holder of the bill may be content to incur that risk, and may receive the note in full satisfaction of his demand, and the same note may pass afterwards from hand to hand in a succession of similar exchanges. But, until the note be either returned into the bank from which it issued, in satisfaction of some counter claim, and so cancelled, or be discharged in cash according to its tenor, the series of transactions of which it has been the instrument must remain incomplete. The day of payment, however, will at length arrive ; and it is this necessity of ultimate payment which constitutes the true limit of transactions on credit, under whatever variety of phasis they may show themselves. This is the main point of distinction, which marks the boundary between a circulation of credit and one of money. It is a distinction which applies to bank-notes precisely in the same manner and degree, in which it applies to every other form of credit, and which identifies them as a portion merely, and, it may be added, but a subordinate and inconsiderable portion, of that great system of credit which, in the ad-

vanced stages of civilization, becomes so powerful and universal an agent in the adjustment of human dealings. There is scarcely any shape into which credit can be cast, in which it will not at times be called to perform the functions of money; and whether that shape be a bank-note, or a bill of exchange, or a banker's cheque, the process is in every essential particular the same, and the result is the same.

I am aware, indeed, that by those who can perceive no difference between a bank-note and a sovereign, in respect to their several capacities of ministering to the offices of exchange, and yet are unwilling to allow the bill of exchange or the banker's cheque to rank on a parity with the bank-note as money, certain small and irrelative points of distinction have been suggested and insisted upon, as affording legitimate ground for the peculiar estimation which they claim for the bank-note. With regard to bills of exchange, for instance, we are told, that they are not entitled, like bank-notes, to the designation of money, for these among other reasons, namely, that they are "payable at a *fixed place* (!!), are drawn for amounts inconvenient for the general purposes of pecuniary affairs, require a knowledge on the part of those who receive them as to the solidity of the names which appear on them, and, in most cases, can only be transferred by an indorsement, which involves the credit of the indorser."*

Now, in the first place, it is not in point of fact true, that the circumstances here enumerated as peculiar to bills of exchange, constitute any real distinction between those bills and promissory notes. If bills of exchange are payable at a *fixed place*, every bank-note, I apprehend, is the same; though how its being so or otherwise should be a matter of the slightest importance, I own I am quite unable to conjecture. The sums for which bills of exchange are usually drawn, may be more un-

* See Mr. Norman's 'Letter to Charles Wood, Esq. M.P.,' p. 43.

equal and less convenient for pecuniary purposes, than the sums imprinted on bank-notes; but this is an inconvenience easily obviated, wherever bills of exchange come extensively enough into use as a substitute for money to make it worth the trouble, and it proved no obstacle to their being employed during a long series of years, and to the almost total exclusion of notes, as the currency of all Lancashire, of the West Riding of Yorkshire, and a large portion of the other great manufacturing districts in the heart of England. In those districts, we are told, that bills were then to be had for all sums from five pounds to ten thousand, and at all dates not exceeding three months.* It may no doubt be very desirable, that the party receiving a bill of exchange in payment should know something "of the solidity of the names which appear on it;" but it cannot be more so, than that the taker of a bank-note should know something of the solidity of the banker who issues it. And, with respect to the alleged peculiarity attaching to bills, that "in most cases they can only be transferred by an indorsement which involves the credit of the indorser," it may be sufficient to answer, that, though an indorsement may in the first instance be required to render a bill of exchange negotiable, that negotiation need not involve the responsibility even of the first indorser, unless he pleases; and a bill once indorsed in blank may afterwards pass through an hundred hands by delivery, just as a bank-note does.

But were these objections as well-founded as they are in truth untenable and frivolous, what would that be to our present purpose? Let me only be permitted to recal for a moment to the recollections of these gentlemen, the real question that is now at issue. On their part it is alleged, that bankers, by over-issuing their promissory notes, and so unduly enlarging the quantity of the currency, are in the practice of unduly raising the prices of

* See Mr. Lewis Loyd's Evidence before the Commons' Committee of 1819, p. 164.

commodities, and through the rise of prices turning the foreign exchanges against us and causing the efflux of bullion, and that it is expedient, therefore, that matters should be so regulated as to prevent such over-issues in future. This is their whole case. We, on our part, deny that, in point of fact, such over-issues are possible. But assuming, for the sake of argument, that they have a real existence, we contend, that the same action on prices which you attribute to the occasional excesses of a circulation of notes, over which you profess to possess effectual means of control, must be exercised in a far greater degree by the excessive use of other forms of credit, which perform precisely the same offices in exchange that are performed by the notes, but probably to ten times the extent, and which are wholly beyond the reach of control or limitation. By what process, do you imagine, that the over-issues which you talk of influence prices? It can only be, I presume, by the excess of notes passing into the hands of individuals, and enabling them to compete on a larger scale with each other in the market for commodities. It is not the mere existence of the notes, which can cause a rise of prices. The notes can only be supposed to produce that effect, inasmuch as they supply a new means and motive to purchasers, and so increase the demand; and the rise must be assumed, I apprehend, to bear an exact proportion to the increased amount of payments, which the excess of issues may enable the holders of those notes to accomplish. But it cannot surely be pretended for an instant, that this question as to the action of a credit circulation on prices can, in one way or the other, or in the slightest degree, be affected by any variation in the form of credit through which the payments are made. Nothing so preposterous can ever be maintained, as that the same payment, which contributes to a rise of the market, when made through the instrumentality of bank-notes, will have no such consequence if effected by the transfer of a bill of exchange, or by an adjustment of

set-off in a banker's books; or, to put the absurdity at once in its most glaring light, that the action of any given facility of credit on price depends not at all on the essential nature and tendency of the transaction, but simply on the particular piece of paper on which the amount of the credit may happen to be inscribed.

Why, the whole bank-note circulation of this country might be turned to-morrow into a system of book-credits transferable by cheque, or all our banking accounts might be commuted, on the contrary, for promissory notes, and in neither case would the course of monetary transactions be essentially disturbed or altered. On this simple and undeniable proposition, indeed, I should be content to rest my whole argument. The two systems are mutually convertible. There is not a single object at present attained through the agency of Bank of England notes, which might not be as effectually accomplished by each individual keeping an account with the bank, and transacting all his payments of five pounds and upwards by cheque. I do not say, that such a plan would be necessarily free from inconveniences or difficulties in practice. I only affirm, that there would be no obstacle to it in principle, and that in this manner a book-credit circulation might be universally substituted for our circulation of bank-notes, and would perform all the offices of exchange quite as certainly and efficiently. Are we to say, then, that our bank-notes are money, but that these book-credits would not be money?—that payments made in the one medium affect prices, but that payments in the other medium would not affect prices? Unless you can carry your argument to this extent, you do nothing to impeach the identity in principle, which associates bank-notes with the other ordinary forms of credit. It is not enough to show, that bills of exchange, from certain peculiarities in their constitution, are in some respects a less convenient medium of circulation than bank-notes. The question is not as to their greater or less convenience or fitness, but whether they do or can, in point of fact, perform all

the monetary offices of a bank currency. It is not disputed, that bank-notes, from their peculiar qualities, and more particularly from the facility with which they are conveyed from place to place and either transferred or realized, have an advantage, in point of convenience, over most other forms of credit, for particular monetary purposes and in particular situations; and the choice being open, for those purposes and in those situations they will generally be preferred. But it does not follow, that, even for the particular uses in question, and those are mostly in the retail departments of commerce, other forms of credit might not, in case of necessity, be substituted with perfect success; while, in payments on the great scale, and connected with the higher order of mercantile transactions, as well as in many others, bank-notes perform only a very small and subsidiary part.

But, while I take this view of the relation in which the different forms of circulating credit stand with reference to each other, I would not be understood as in the least degree favouring those outrageous estimates of the currency, which count the whole aggregate credit of the country as equivalent to so much coin. Bank-notes having no other functions to perform than as substitutes for money, and being in demand for that purpose alone, they are created only in quantities little more than sufficient to meet that demand; and, with the exception only of such as accumulate from time to time as a reserve in the hands of the issuing banker, the great bulk of those notes at any given period in existence is also in the active performance of monetary offices. But, though every bill of exchange is more or less competent to perform the same functions as the bank-note, it is from other motives, and for other purposes than those of providing a circulating medium, that the bill of exchange is usually called into existence. The bill of exchange is not ordinarily, like the note, payable on demand, but after a certain interval of time; and it passes current at a discount equal to the market-rate of interest for the period

it has to run. It is consequently largely sought after by capitalists, as an investment, and in the great majority of cases never passes out of the hands of the first holder till it falls in course of payment. It is the tendency of all interest-bearing securities to remain quiescent. No man holding two instruments of exchange, the one productive, and the other unproductive, will be inclined to pay away the productive instrument, when the other will answer the purpose of payment equally well. If the supply of bank-notes, therefore, be sufficient for the transactions of the market, the bills of exchange will accumulate for the most part in the hands of the capitalist, while the bank-notes will be circulated; and the amount of bills of exchange at any given time in existence can never, therefore, be anything like a correct measure of the power they are exerting in the currency. It is only when actually appropriated to the purposes of payment, that they can be regarded as an effective portion of the monetary currency at all. It is the same with regard to that portion of credit, which is embodied in the shape of bank deposits: while dormant, it is nothing more than credit in the abstract; it only becomes currency when brought into action. Nor are bank-notes themselves exempt from the application of the same distinction. In as far as prices and exchanges are concerned, the notes accumulated as a reserve in a banker's drawer can exercise as little influence as the gold which is still in the ore.*

* I should have supposed, that this proposition was too self-evident to be disputed by the theorists of any persuasion. But I find that there are reasoners to be met with, who take a very different view of the question, both as respects the paper and the gold, and seem to think, that the bare existence of either in the hands of a banker is quite sufficient to alter the exchangeable value of the general mass of the currency, and to enhance prices. According to them, the effect is produced by the "greater command" which is obtained over the purchase of commodities, even without any actual increase of purchases, or of offers to purchase! One of these reasoners, it would seem, is Sir William Clay. In the course of an argument on the supposed case of an

The true light, therefore, in which, as it seems to me, we ought to regard these various forms of circulating credit, is rather as an element of monetary power than as in itself money, as a vast and inexhaustible *fund* of potential currency, at the free command of every man whose exigencies require its aid, and who has an equivalent to render or security to pledge in return. What may be the absolute extent to which this power is in active operation at any given time, it is obvious, we can have no feasible means of estimating. Indeed, it would be no easy matter to define exactly, where this state of activity may be said to commence and where to terminate; for it only manifests itself in the specific act of payment; and, unless we could ascertain the whole sum of payments effected within a given time, through the medium of each of these several forms of credit, we can form no accurate appreciation of their respective performances, either as compared with each other or with the performances of the money circulation to which they are auxiliary.

It is the fashion of the day, to attach an inordinate degree of importance to the periodical returns of the bank-note circulation, and I am far from denying the utility of the information which those returns furnish

extra issue of bank-notes on loan, which has been turned into a credit on deposit, by the parties into whose hands the notes have fallen paying them in to their respective accounts with the bank, he observes, "And will it be said that these additions have no effect on prices? I can conceive no reason why they should not have the *same* effect on prices as would be produced by the addition of 2000*l.* in sovereigns brought into the country and *paid into the respective banks* by persons arriving from abroad. In the latter case, as in the former, the money would not at once *enter into* the circulation, it would only be *absorbed by* the circulation, *as prices rose under the influence of the greater command over the purchase of commodities*, which the possession of it conferred on one or more members of the community."—[See Sir William Clay's 'Remarks on the Expediency of restricting the Issue of Promissory Notes,' &c. p. 36.]—It certainly must be conceded to Sir William, that the rise of prices to be apprehended from the addition to the deposits in the case here supposed, would be quite as great as any rise which would be produced by the addition of the sovereigns.

to the community. It may serve, to some extent at least, as an index of the state of commercial credit, and of the greater or less activity of industry; and it is of undoubted and eminent advantage both to the customers and proprietors of banks, by the publicity which it gives, to one class at least of their liabilities, and the additional security thereby afforded against the indiscretion or misconduct of their managers. But, beyond this, it would be a palpable delusion to suppose that these returns make us much wiser,—that they supply anything like a comprehensive view of the amount or value of monetary dealings, or furnish data from which any one can determine the scale of prices, or predict the revolutions of exchange. Of all the other elements of monetary power, we know little more than that they exist. We collect just enough from common observation and experience, to be perfectly assured of the fact, that the total amount of transactions adjusted by the various processes of set-off, through the agency of the London clearing-house, and of other expedients of transfer in use among bankers, without the intervention of money, or the aid of any circulating instruments of credit, save only the banker's cheque, surpasses to an enormous extent, in magnitude if not in number, the amount of transactions adjusted by payment in bank-notes. We know too, that, in consequence of the increased facilities afforded by banks, and the recent extension of the practice of keeping banking accounts, this disproportion is much more considerable at the present moment, in all parts of the kingdom, than it was only ten years ago. To say nothing of the great commercial dealings on the Exchange, let any resident in the metropolis, living upon his fortune, and conducting his expenditure in the customary manner, let him only recal to his recollection how often, during the course of a year, he has had occasion to make use of bank-notes. If he has been going on a journey, out of reach of his banker, or to parts of the country where he might not

be personally known, he may have found it convenient to take a few notes with him. But otherwise, it will probably turn out, that everything has been done by cheques, with the addition of a little gold and silver for small change, and that for months together perhaps he has not so much as seen a Bank of England note. There is scarcely now a respectable tradesman, or indeed any man who has cash to keep, that does not keep that cash with a banker, and make all his payments of 5*l.* and upwards by cheque; and these cheques, in their turn, are adjusted by mutual transfer at the clearing-house, leaving a balance to be settled in notes or coin of not more than about 6 per cent. on the whole sum. Mr. Gladstone, in his examination before the Committee of 1819, has thrown out an opinion, that the circulation of Bank of England notes does not constitute "*one-tenth part* of the general circulation of the country."* And we have an estimate to nearly the same effect from Mr. M'Culloch, who does not hesitate to state, that, "but for the expedients resorted to for the purpose of economizing the currency, a circulation of *two hundred millions, at the very least*, would be required to perform the functions now performed by fifty or sixty millions of bank-notes and gold."† These estimates may be little more than random conjectures, but they are the conjectures of men of experience and accuracy; they are sufficiently consistent with each other; and, when dispassionately compared with the facts within our knowledge, will scarcely, I think, be rejected as very unreasonable or extravagant.

But the point, above all others, which claims our attention is this,—that, notwithstanding the prodigious scale on which currency thus derives aid from credit, the fund always far exceeds the demand upon it, and there is unquestionably at all times afloat a superfluity of forms of credit applicable to the purposes of circula-

* See the Report of the Commons' Committee of 1819, p. 109.

† See 'Dictionary of Commerce,' art. "Banking."

tion, which are never called into use, simply because they are not wanted, but which might at any time and would be called into use, were the public to be deprived for any considerable period of those resources on which they more habitually depend. Thus, while the circulation of bills of exchange as money has nowhere borne more than an inconsiderable proportion to the whole quantity of bills in the market, the note circulation and bill circulation, where they have been used in common, have been observed to maintain a mutual balance, the one supplying any deficiency in the other; and it has been chiefly owing to the accommodations latterly afforded by the Bank of England to the country banks, and the free supply of its notes on easy terms, through its branches, for the provincial circulation, that the use of bills in Lancashire as money has for some time been progressively on the decline. I know indeed that, in opposition to this view of the question, it has been alleged, that, "when the aggregate amount of coin and bank-notes is undergoing a diminution, an increase in the use of bills of exchange, to supply the place of the coin and bank-notes, is, practically speaking, *impossible*;" that, "so far from increasing under such circumstances, they will necessarily, and without any legislative interference for the purpose, decrease probably in a greater ratio than the coin and bank-notes."* I believe this to be one of the many fallacies, which have been invented to prop up the rotten fabric of the currency theory. If my space permitted, and the occasion demanded, I am confident I have the means of proving, that there exists no such invariable connexion as has been generally assumed, between the contractions and expansions of the bank-note circulation and the expansions and contractions of the bill circulation. But really the point is quite irrelevant to the matter in debate. To suppose for a moment, that a reduction of the circulating

* See Mr. Norman's 'Letter to Charles Wood, Esq., M.P.' p. 42.

amount of coin and bank-notes could not be compensated by an increased use of bills of exchange for the purposes of money, unless there was at the same time an enlargement of the aggregate bill circulation, betrays an utter misapprehension of the bearings of the question. It seems to be entirely forgot, that the amount of bills of exchange performing the offices of currency at any given time bears ordinarily no greater proportion than as one perhaps in ten, or one in twenty, to the whole amount of bills in existence. Had this fact been adverted to, it would have been obvious on the slightest reflection, that the proportion of bills thus employed might be doubled at the very time that the aggregate bill circulation might be in a rapid course of diminution; and such, in one degree or another, I believe to be not at all an unusual coincidence in the fluctuations of the money-market.

Upon the same principle by which bills of exchange and other negotiable instruments are made to perform the functions of money, there is no description of transferable debt or security which may not on some occasion or other be applied to the same purpose; and it is impossible to doubt but that, out of the superabundance of existing forms of credit of one description or another, the bank-note circulation, even if wholly withdrawn, would in a very short time be replaced, not perhaps in all respects with exactly the same convenience, but amply and completely, and with very little assistance from gold. The innovation on established habits would be the chief difficulty. The London bankers at present are accustomed to rely on a supply of notes on discount from the Bank of England; and when that resource at any time fails them, they are thrown into embarrassment and trouble, though, so long as their credit is entire, they have only to cast round them for a remedy. If they could agree among themselves to pass bills of exchange currently as money, the thing would be done; and, as far as concerns a medium of exchange,

they would be independent of the Bank. But the application of bills of exchange to such uses is not the custom of London; and a time of general distress and alarm is not exactly the time for introducing new schemes. It is not therefore attempted. It would be a different case, however, if these emergencies were of long duration. The bankers would in that case be compelled, in self-defence, to resort to new expedients, and would have more leisure for deliberation in the choice of them. There is a remarkable passage on this head, in Mr. Henry Thornton's evidence before the Committee of 1797 on the Outstanding Demands of the Bank of England. After detailing the disastrous consequences to be apprehended from any further considerable reduction at that period of the issues of the Bank, he says, "I cannot conceive, that the mercantile world would *suffer* such a diminution to take place, without *substituting a circulating medium of their own*; and I happen to know, as I before hinted, that some projects of this sort were on foot, and had been in the minds of several bankers, whom I understood to have agreed in the general principle, though not actually associated for this purpose, in the recent difficulties."*

These reasonings and anticipations are fully sustained by our experience of the fluctuations of the bill currency in the manufacturing districts. The extension of the branches of the Bank of England over the country, and the increased predominance which the operations of those branches have given to the Bank of England notes in the country circulation, have had the effect, as I have already observed, of nearly extinguishing the circulation of bills of exchange *as money*. The aggregate mass of bills probably remains the same, or it may be greater; the gross amount of circulating credit remains the same; the only difference is, that certain functions which were lately performed

* See 'Report of Committee of 1797,' reprinted in 8vo. in 1826, p. 56.

by means of bills of exchange, are now performed by bank-notes or book transfers; and not only is the numerical amount of bills unaffected, or affected only in a trivial degree, but their power as a circulating medium, though for the present in abeyance, continues as it was before,—a ready succedaneum for the bank-note, whenever the necessities of the public may call them again into use for that purpose. The manager for the Bank of England at Liverpool, when asked by the Committee of the House of Commons in 1838, whether, at a time when the Bank of England is discounting generally at $4\frac{1}{2}$ per cent., those country banks, which at present have what are called circulation accounts with that establishment, and are entitled by agreement to a large accommodation at 3 per cent., would not, in case they had no such advantage, find it necessary to procure the same supply from the London market at the current interest of the day, replies, that the banks would *not*, in such case, be obliged to resort to the London market, “but would have recourse again to their bill circulation.”* In this opinion there cannot, I think, be the least doubt but that Mr. Turner was right; and, reduced as the bill circulation was in 1841, we find his view of the case corroborated by the remark of another intelligent witness, who, in his examination before the Committee of that year, states that “whenever money is scarce, there is an increase of the circulation of small bills in the country.”†

And now, if this state of circumstances, which I have been endeavouring to explain and illustrate, be not a dream or a fiction,—if it be true, that the redundancy of the circulating medium can only operate on prices, and through prices on exchanges, by means of the additional facilities which it is supposed to afford to transactions of purchase and sale, and the consequent augmented de-

* See ‘Report of 1838 on Joint Stock Banks,’ p. 19.

† See Mr. James’s Evidence before the Commons’ Committee of 1841 on Banks of Issue; Report, p. 152.

mand for commodities,—if, further, it be an undeniable fact, that nine-tenths, or some other very large proportion, of all the transactions of purchase and sale which take place in the kingdom are adjusted without the intervention of money properly so called at all, and by the use of other expedients of credit than bank-notes,—and if, lastly, the supply of some of those expedients of credit is increasing and inexhaustible, utterly beyond the reach of legal restraint, and never denied to any one who has occasion to use them and value to give for them, stronger evidence surely cannot well be desired or imagined of the utter hopelessness of any attempt to control those purchases and sales, or the fluctuations of value which they engender, by any officious tampering with the free supply of so comparatively insignificant a portion of the whole mass of circulating credit as the bank-notes, and that portion the least of any in affinity with those great operations of trade by which the course of prices and exchanges is really directed. I am not sensible of having exaggerated any circumstance in this picture. But let every possible exaggeration, alleged or suspected, be allowed for, and the end which you propose will still be found far out of the compass of your means. Bank-notes are the small change of credit, the humblest of the mechanical organizations through which credit develops itself. And to think of effectually shackling the energies or curbing the excesses of that gigantic power, by merely crippling a little the movements of this its inferior member, is much the same as if Parliament, in one of those fits of legislative mania to which the times appear so encouraging, were, by way of laying a sumptuary restraint on the too free indulgence in gin and tobacco, to propose a curtailment of the small coinage of sixpences, halfpence, and farthings, with which the consumers of those luxuries are in the habit of defraying their pot-house reckonings. The results in both cases would probably be much the same; nor would the legislature be likely to find the gin-drinkers and tobacco-smokers more tract-

able subjects of experiment than the speculators on the Royal Exchange. There would not in the long run be consumed one gallon of gin nor one roll of tobacco less. When men have commodities to exchange or credit to exchange for commodities, you do not prevent such exchanges by denying them a safe and convenient medium for the traffic, you only force them to invent for themselves some expedient less safe and less convenient.

To those who desire a more familiar acquaintance with the shifts and devices by which a people, abandoned by the improvidence of their rulers to devise a small currency for themselves, contrive to find substitutes for money, I cannot recommend a more profitable study than the Report of the Committee of 1804 on the state of the circulation in Ireland. The history of the Irish currency from 1798 down to that year furnishes a singular picture of the struggles of a people, whose metallic circulation has been allowed to pass from them, without any precaution on the part of their government to provide them with an efficient substitute. Ireland at that period had no commercial intercourse with any other country than Great Britain; and various circumstances concurred, soon after the passing of the Bank Restriction Act, to turn the current of exchange between the two kingdoms so strongly against Ireland, that in a very short period the whole of the latter country, with the exception of a limited circle in the north marked out as the seat of the linen manufacture, appears to have been effectually stripped of its coin of every description, small as well as large, silver as well as gold. For the gold, the one-pound notes issued by the Bank of Ireland proved an useful, if not an unexceptionable succedaneum; but for all means of circulation below 21s. the population seem to have been left entirely to their own contrivances. What was the consequence? Why, the whole south of Ireland was presently inundated with a deluge of silver notes, as they were called, and I-O-U's, issued not only by private bankers, but by half the petty shopkeepers,

publicans and traders, and of various denominations, from 9s. down to $9\frac{1}{2}d.$ From the district of Youghall alone we have the names of no less than seventy issuers, among whom there was only one regular banker; while in Dublin, where the issue of very small notes was not permitted, the substitute was a very base description of silver, privately fabricated in vast quantities, and some of it not worth more than a fourth of its denomination. It was a matter of necessity, that a currency so constituted should become depreciated. The responsibility of the issuers of the silver notes and I-O-U's would not probably have availed much, had there existed any facility of putting it to the trial. But the very distances must in the great majority of cases have been an insuperable impediment of themselves to the realization of sums of such paltry amount; and the issuers were moreover protected by a clause of the statute of 1799, which actually restrained the holders of silver notes from demanding payment of them in any money but the notes of the Bank of Ireland, so that they could only be realized at all in even sums of 20s., which was the lowest denomination of a Bank of Ireland note; and if there was any fractional difference, the applicant was required to tender it in cash. It is obvious, therefore, that such a currency must have been virtually inconvertible, not to say into cash, but into any circulation of a description superior to itself, and not merely inconvertible, but to a certain extent compulsory. It was issued not on loan, like the promissory notes of bankers, to be returned after a brief interval in the same kind to the issuer, but was disbursed for the payment of the issuer's personal debts, or the purchase of commodities for his individual use. And with respect to the surreptitious issues of base coin, the case was still worse; those issues poured into the market from no one knew where, and there was absolutely no channel through which they could ever be thrown back on their fabricators. To neither of these descriptions of issue could there be any natural or prescribed limit: and we have

accordingly presented to us in the Irish circulation of that day, the singular spectacle of a degradation of value, not (as I believe) deriving its origin from the overflow of any of the principal or ordinary fountains of commercial currency, nor affecting in the first instance the great marts of commerce, but engendered among the retail dealings of a poor and straggling population, at cattle-markets and fairs, and gradually working its way upwards by a process not very difficult to be understood, till the whole mass came to partake of the degradation.

Fortunately, the expedients likely to be resorted to for supplying any void in the higher departments of the circulation, which may be consequent on the rigid prosecution of the plan now announced by Government, are not of a nature to justify any reasonable apprehension of results at all resembling those, which attended the efforts of the Irish to provide themselves with a substitute for small money. In the manufacturing districts, indeed, they may very possibly revert to a more extended circulation of bills of exchange, which may occasionally be found unsafe, and certainly can in no point of view be regarded as an improvement on a circulation of Bank of England notes; and I am surprised, I own, that a deterioration even to that extent should be risked by a measure, which professes to have for its main object the placing the circulating paper of the country on a sound and impregnable foundation. But, though a risk to be avoided, it is not one calculated to excite any very serious alarm. Nor is it from any idea that the degraded condition of the Irish small notes and coin in 1804 is likely to be exemplified in the results of the projected limitation of the bank-note circulation of this country, that I have been anxious to direct attention to that remarkable epoch in the Irish currency. My sole object, in referring to the phenomena of that period, has been to illustrate the facility, with which even a people labouring under every disadvantage of circumstance and condition, a poor agricultural

people, comparatively without capital, credit, or commerce, can always provide itself with some imperfect medium or other for the transaction of its exchanges, when denied a supply of sound currency commensurate with its wants. And I rely on these phenomena as an additional demonstration of the futility of any attempt, in a country like Great Britain, full of wealth and resources, and superabounding in every aid and appliance which an unheard-of command of credit, directed by commercial experience, enterprise, and skill, can bestow, to place the quantity of the circulating medium under any other restriction than what those wants, as expressed through the organ of the public demand, must everywhere of themselves impose.

CHAPTER III.

How Fluctuations in the Cost of producing the Precious Metals, or in the Quantity of a Currency of Conventional Paper, act on Prices—Bank-notes do not so act, because their quantity is governed by the demand—How Speculation affects Prices—Fluctuations of Price arising from Fluctuations in the Quantity of the Currency *Nominal*; from Speculation *Real*—New Gold Coin and new Conventional Notes are issued in *Payments*, Bank-notes only on *Loan*—The regular Reflux of Notes advanced on Loan a sure Preventive of Redundance—Sir William Clay and Mr. Tooke—The Reflux is the great regulating principle of the internal Currency—Inexpediency of the State taking the Management of the Currency into its own hands.

THE reality or the magnitude of an evil can be no justification for the adoption of an impracticable remedy. And, were the prepossessions on this subject less universally and deeply rooted, it might be sufficient, for the purpose of my present argument, to have shown, as I have endeavoured to do, that the plan now proposed to Parliament for the future regulation of the currency must be utterly and incurably inefficient for the objects it professes to have in view, however desirable the attainment of those objects may be. But the bearings of this question are so complicated, and there prevails such manifold misunderstanding on almost every point connected with it, that it might seem little less than a virtual abandonment of my cause, were I to stop here, leaving the issue to be decided on the plea of impracticability alone. I believe it to be not less demonstrable, that the proposed object, if attainable, would be wholly undesirable, than that the means proposed for its attainment are inadequate to that end. I look upon the whole doctrine of depreciation from over-issue as a delusion, an hypothesis in direct contradiction to facts, and to which nothing but a misconstruction of facts, somewhat per-

plexed, perhaps, in their bearings, but clearly susceptible of a more accurate and consistent interpretation, could possibly have given currency.

The allegation is, that bank-notes, payable in gold on demand, are nevertheless liable to be issued in excessive quantity at the discretion of the issuer, and that every such over-issue occasions a proportional rise in the prices of commodities. At the entrance of this branch of the discussion, it may be of advantage, that I should at once endeavour distinctly to explain my views, with regard to the connexion which subsists between currency and prices, so that there may be no mistake as to the nature of the propositions which it is my intention to maintain. To the want of a clear understanding upon this head *in limine* I am inclined, in some part, to attribute the very limited impression which arguments, to my mind irresistible, appear to have produced hitherto on the minds of the public. That, soon after the discovery of the South American mines in the sixteenth century, a decline in the value of the precious metals was manifested all over the world by an universal rise of the money prices of commodities, is a fact which no one presumes to question. It is equally undenied and undeniable, that the inconvertible paper money issued by sovereign states may be, and in many instances has been, degraded by excess of quantity, until its value in exchange has been nearly extinguished altogether. People look at these facts, and observing, at the same time, that, with a system of convertible notes, there occur also, from time to time, extensive fluctuations in the markets, and, being told that those fluctuations are caused by the alternate expansions and contractions of the bank issues, the whole class of phenomena—the action of the coin, of the government notes, and of the bank-notes—become naturally associated in their minds almost as one idea; they regard the whole as the results of a common principle; and when they are asked to entertain a proposition like that conveyed in Mr. Tooke's dictum, that

“variations in the quantity of the circulating medium do not affect prices at all,”* they turn away incredulous, as from a paradox that outrages all their preconceived notions, and seems even to be contradicted by facts within their daily experience. If a redundancy of metallic coin, or of government notes, raises prices, they are unable to perceive why the redundant paper of a credit currency should not have the same effect. Their difficulty, however, originates in an entire mistake of the point at issue. It is not disputed that, if the issuers of bank-notes had it in their power to add permanently to the note circulation of the country, as the discoverers of the Cerro de Potosi added to the stock of the precious metals throughout the world, or as the National Convention of France added one flood of assignats to another,—the prices of all commodities, estimated in bank-notes, would, after a time, infallibly rise, just as in the case of the silver and of the assignats. What Mr. Tooke, and those who hold similar opinions, contend for is, that, by the very constitution of a convertible currency, it can never be issued in larger quantities than are required for use, and therefore can never be redundant.

It is true, that the prices of an extensive class of commodities may occasionally be affected for a time by *speculation*, and that such speculation may be more or less supported by extraordinary facilities of credit. But, albeit bank-notes are nothing more than credit embodied in a particular shape, this indirect action of credit on prices is quite a different thing from the action on prices ascribed to bank-notes by the partisans of the currency theory. According to these gentlemen, bank-notes influence prices simply by their quantity. In their view, if a million of notes be added to an existing circulation of twenty millions, the local effect will be the same, as if the whole stock of gold existing in the world had been

* See Mr. Tooke's Evidence before the Commons' Committee of 1840 on Banks of Issue, p. 298, 299.

suddenly augmented in the proportion of 5 per cent. by an extra supply from the mines; the circulation will be depreciated to the extent of 5 per cent. by the addition, and the general prices of commodities will be raised in the same ratio. The rise, however, in this case, supposing such an incident to be possible, would, after all, be merely *nominal*; for as the quantity of goods which a note for 5*l.* could command would only be reduced in the same proportion that the note was depreciated, the money value given in exchange would still be exactly the same as before; the only change would be in the denomination. But where the prices of commodities are raised by the influence of speculation, whether with or without the aid of credit, both the process and the result are as nearly as possible reversed. The object of the speculative purchaser is to withdraw from consumption a portion of the stock of the commodity in which he speculates, and to hold it back from the market until he can sell it at a profit; his action is on the value, not of the money, but of the commodity; and he causes a rise of price by thus disturbing the natural course of supply and demand. He first creates an artificial demand, by entering into competition with the consumer for the possession of the commodity, and then he contracts the supply, by refusing for a time to sell it to any one else. When he succeeds in his object, however, the rise of price is not *nominal* but *real*; when he at last brings his commodity to market, he obtains for it not merely a larger numerical amount of coin or notes than he paid for it, but a larger money value.

Let us try now to elucidate these distinctions a little further, by attending to the actual process by which an increased influx of the precious metals, consequent on the improved fertility of the mines, or any considerable and uncalled-for addition to a circulation of inconvertible government paper, acts upon prices; and let us see, whether the same or any similar process would be compatible with the circumstances and conditions which

govern the fluctuations of a bank-note currency. It may tend to simplify our argument, if we suppose the case of a nation having no commercial intercourse with its neighbours, maintaining no mint establishment for the renewal of its coin, but transacting its interior exchanges by means of an old and debased metallic circulation, which preserves a high rate of exchangeable value merely by the limitation of its amount,—of a nation making use, nevertheless, of the precious metals on a large scale for purposes of ornament and luxury, and exporting yearly the products of its industry, to the value, say, of half a million sterling, to some distant mining country, for the purchase of an equivalent in gold and silver, to replace the annual tear and wear of its stock, and to meet an increasing demand for consumption. Under these circumstances, let it be imagined, that, by some extraordinary improvement in the method of working the mines, or by the discovery of some new and richer veins of ore, the cost of procuring the gold and silver in the mining country were reduced to one half of what it had been before; that, in consequence of this discovery, the annual production were doubled, and the price of the metals on the spot lowered in a corresponding proportion, and that, in consequence of this change of circumstances, the merchants of the country first-mentioned were, in return for the same quantity of exported goods which had hitherto been merely sufficient for the purchase of gold and silver to the amount of the required half million, enabled to procure and bring home a million of those metals—what would be the effect? I certainly am not aware, that any effect would be produced, under such circumstances, differing materially from the effect of an over-supply of any other equally durable commodity. The previous annual consumption of gold and silver in the country, for plate, gilding, and trinkets, having been fully supplied by an importation to the value of half a million, there would be no purchasers for more, until a new de-

mand should be created by a reduction of price; the prices, accordingly, of the newly imported stock of metals, as estimated in the base currency, would decline with more or less rapidity as the merchants might be more or less eager to realize their returns; a certain proportion of the treasure would, no doubt, be held back for a time from the market, so as to let down those prices gradually, and, probably, to secure to the merchant a pretty high rate of profit on the actual sales, though greatly short of what the reduced cost at which the article had been procured might have encouraged him to expect; the disposition to consume would gradually increase with the fall of price: and thus matters would go on, till another and another importation on the same redundant scale, following in succession from one year to another, would at length bring down the scale of price to a level with the altered cost of importation, or perhaps, for a certain period, below it: this again would react upon the industry of the mining country, and thus insensibly the course of demand would be brought again into harmony with the altered conditions of the supply. But, all this time, the price of every other commodity but the gold and silver, as measured in the local currency of the country, would remain unmoved; and, unless some of the surplus stock of the metals thus acquired could be turned to account in commercial exchange with some third country less favourably circumstanced for procuring its supplies of gold and silver direct from the mines, the importing country would derive no advantage from these periodical accessions of metallic wealth, beyond such gratification as can be derived from the more generally diffused application of gold and silver to domestic uses.

But let us next picture to ourselves the effect which a similar succession of incidents would produce in a country more advanced in its commercial relations, and with its monetary system on a more improved footing, possessing already a full metallic circulation of standard weight

and fineness, an unrestrained traffic in the metals, and a mint open for the coinage of all the standard bullion which might be brought to it. Under such circumstances, the effect of a sudden duplication of the annual supply from the mines would be very different. There could, in that case, be no rise of the market-price of the bullion, for the price of gold, measured in coin of the same metal, and of equal fineness, can never vary; they may both rise or both fall together, as compared with commodities, but there can be no divergence. Neither would there be any unusual pressure on the bullion market in consequence of the increased importation, nor, at least in the first instance, any inducement to a larger consumption of the imported metals in the arts. The market would take off at par merely such proportion of the importation as had hitherto sufficed for the purposes of consumption, and the rest would all be sent to the mint for coinage, yielding an enormous accession of wealth to the importers, who, to the extent of the means thus placed in their hands, would immediately become competitors for every description of productive investment in the market, as well as for all the material objects which contribute to human enjoyment. But as the supply of such objects of desire is always limited, and would in no way be augmented by this great inundation of circulating coin, the inevitable results would be, first, a decline of the market-rate of interest; next, a rise in the value of land, and of all interest-bearing securities; and, lastly, a progressive increase in the prices of commodities generally, until such prices should have attained a level corresponding with the reduced cost of procuring the coin, when the action on interest would cease, the new stock of coin would be absorbed in the old, and the visions of sudden riches and prosperity would pass away, leaving no trace behind them but in the greater number and weight of the coins to be counted over on every occasion of purchase and sale.

The process by which the redundant issues of an in-

convertible government paper act upon prices, is exactly analogous to that which is set in motion by an increase of the productive power of the mines. It is in the discretion of the issuing authority, either to limit the employment of the notes which it sends out to the purposes of a temporary advance in anticipation of taxes, or to issue them for all purposes of state expenditure without making any provision to secure their return. In the former case, there will be no permanent addition to the circulation, nor any power of purchase obtained which would not sooner or later have been obtained through taxation alone. In the latter, the issuing authority will be placed nearly in the same position with the merchant returning with his double cargo of gold and silver from El Dorado. It will have invested itself with a power, only limited in the first instance by its own discretion, of competing in the market for every article of which the government or the host of individuals receiving pay from government may chance to stand in need; and there is no channel, through which the notes which it issues can ever return. There exists therefore every condition necessary to a depreciation of the paper and a rise of the nominal prices of commodities.

Try then the bank-notes by the same tests; and see if the principles which determine a rise of prices in the case of a more abundant influx of the precious metals, or of the redundant issues of a conventional currency, can have the least application to them. There is this broad and clear distinction between all currencies of value and currencies of credit, that the quantity of the former is in no degree regulated by the public demand, whereas the quantity of the latter is regulated by nothing else. The gold, which is once smelted and converted into coin, can never be returned again into the mine; there it is, a permanent and irrevocable addition to the stock of money in the world; the people among whom it is circulated have no voice in directing its destination; to the importer it is utterly unprofitable, so long as he

holds it, and he must therefore exchange it for something productive, at whatever sacrifice. In order, therefore, to get rid of it, he submits to exchange a larger quantity of it for the purchase of whatever objects he covets, than would have been sufficient for the same purchases before this new competition; and by thus forcing his coin on the market at a reduction of value, he proves that at previous prices there was no demand for it. Still more decidedly have the conventional issues of governments all the characteristics of a forced currency. Until familiarized to the people by custom, they are always received and circulated with reluctance, and would never be circulated at all, if the people had any choice in the matter. But, even after the notes have become depreciated, the law compels the private creditor to accept them in satisfaction of his claim; and the government having no better money to offer, the only alternative left to its creditors and dependants is to take this or none. Bank-notes, on the other hand, are never issued but on the demand of the recipient parties. New gold coin and new conventional notes are introduced into the market by being made the medium of *payments*. Bank-notes, on the contrary, are never issued but on *loan*, and an equal amount of notes must be returned into the bank whenever the loan becomes due. Bank-notes never, therefore, can clog the market by their redundancy, nor afford a motive to any one to pay them away at a reduced value in order to get rid of them. The banker has only to take care that they are lent on sufficient security, and the reflux and the issue will, in the long run, always balance each other. However prone individuals may be to abuse at times the facility of borrowing, no merchant can ever desire to keep by him a larger sum in bank-notes than is indispensably necessary for his payments; and if any one were disposed to indulge in so unprofitable a fancy, it would be a matter of not the slightest importance to any other than himself, for, in as far as the public are concerned, notes which are

not in use are the same as if they were not in existence. Those notes cannot be obtained from a banker, but by paying interest for the use of them, nor can they be obtained at all but for very short periods, at the expiration of which they must be replaced. Their circulation must always be strictly limited by the wants of those who have value or security to offer for them. And so limited, there can be no redundancy; no holder of them can ever be placed in the same predicament with the importers of a double supply of bullion, or the recipients of a forced issue of government-paper, who have no means of turning their acquisitions to use but by submitting to part with them at a reduced value.

Sir William Clay, however, cannot, it seems, understand this. "He is wholly unable to perceive" any of that "essential difference of character, independently of convertibility, between bank-notes and a government compulsory paper," which Mr. Tooke insists upon; he can see no point of distinction but in the convertibility of the notes; and, when Mr. Tooke points out, that the compulsory issues of governments are usually in payment for the personal expenditure of the Sovereign, for public works and buildings, or for the maintenance of civil, naval, and military establishments, and that "paper created and so paid away by the government, not being returnable to the issuer, will constitute a fresh source of demand, and must be forced into and permeate all the channels of circulation," Sir William Clay seems to think the proposition satisfactorily answered by a profession of his inability to discover, "why paper-money issued to defray the expenditure of the Sovereign should be different in its effect, when issued, from paper-money paid away for the expenditure of private individuals—why a 5*l.* note issued to the builder of a barrack should take a different course from a 5*l.* note paid to the builder of a shop or warehouse—why notes employed to defray the salaries of government clerks, or the pay of soldiers and sailors, should be more disposed to permeate all the

channels of circulation, than if used to pay clerks in merchants' counting-houses or workmen in a factory."*

It certainly is not surprising, that Sir William Clay should be unable to perceive the truth of a string of distinctions, which neither Mr. Tooke nor any other sane person has ever dreamt of maintaining, and which have no other existence than in his own imagination. But what does surprise one is, that Sir William Clay should not only have read, but should quote and profess to criticize Mr. Tooke's very plain proposition, and yet should pass wholly unnoticed the single and only point of distinction on which Mr. Tooke's argument turns, namely, that the government paper is "*paid away*," and is "*not returnable to the issuer*," whereas the bank-notes are only *lent*, and *are returnable to the issuers*. If the truth of this distinction be not intelligible to Sir William Clay, nor its important bearing on the question under discussion obvious to him, I can have little hope of making the matter more apparent to him by any further illustrations. I shall nevertheless make one effort more to bring the argument home to his conviction. I shall take the liberty of supposing that, after the suspension of cash payments in 1797, by which the bank-note circulation of this country was transformed from a convertible into a conventional currency, the Directors of the Bank of England, instead of exercising the privilege intrusted to them, in the discharge merely of their ordinary functions as bankers, according to the same system, and subject to the same rules by which in all times previously they had been governed,—that, instead of making advances to individuals on the security of approved bills of exchange at short dates, and to Government on the security of the accruing produce of loans and revenues, they had chosen and had been permitted to deal with their issues of inconvertible notes as a private gentleman deals with his income,—to disburse

* See Sir William Clay's 'Remarks on the Expediency of Restricting the Issue of Promissory Notes,' &c., p. 38, 39.

them without stint or measure for objects of personal gratification, in building palaces, in laying out plantations and gardens, in the purchase of works of art, or in the pleasures of the table or the chace. Is Sir William Clay seriously of opinion that, in as far as respects the amount and value of the currency, this system of expenditure would have had no effect beyond that which would be produced by the same extent of issue in the ordinary course of banking operations? Should Sir William hesitate to reply in the affirmative, I may perhaps be permitted to observe, that the case which I have supposed is precisely that of every government which attempts to defray the national expenditure by a compulsory issue of inconvertible paper. The paper so issued is expended in the purchase of naval and military stores, in building ships, in constructing public edifices, and in the payment of services performed to the state, and no precaution is usually taken to ensure its being ever returned again into the Exchequer. In the case of the Bank of England, on the other hand, the reflux of the notes was at no period interrupted. Perfect convertibility is no doubt one essential condition of every sound and efficient system of currency. It is the only effectual protection against internal discredit, and the best preventive of any violent aberrations of the exchange with foreign countries. But it is not so much by convertibility into gold, as by the regularity of the reflux, that in the ordinary course of things any redundancy of the bank-note issues is rendered impossible. When a greater number of Bank of England notes fall into the hands of an individual than he is likely to have any immediate call for, he does not, unless he wants specie to send abroad, present them to the Bank for gold. He merely lodges them with his own banker, who probably either places the sum to the credit of his own deposit account with the Bank of England, or throws them into the discount market, where they help to supply the vacancy left by the tide of notes continually setting back to the

Bank. It is the *reflux*, that is the great regulating principle of the internal currency; and it was by the preservation of the reflux, throughout all the perils and temptations of the period of the restriction, that the monetary system of these kingdoms was saved from the utter wreck and degradation which overwhelmed every paper-issuing state on the Continent, and which in all human probability must have been likewise our fate, had our currency at that epoch been administered by a Government Board instead of the Bank of England. I have adverted in a former page to the deep debt which the nation owes to the Bank, for its services through that long and trying crisis. I believe they cannot be too highly appreciated; and I believe, further, that the same services could not have been so beneficially performed by any mere bank of the State, or by any body whatever less intimately bound up in all its interests and relations with the commercial affairs and prosperity of the country. That will be an evil day for England, when the supreme executive authority of this country shall take the administration of a credit circulation into its own hands. I trust never to see it; and I hold the sort of levity with which the possibility of such an arrangement has sometimes of late been alluded to, and even hinted in the way of menace to the Bank of England, to be one of the worst indications of the existing state of public opinion on these all-important concerns.

CHAPTER IV.

The Value of a Convertible Currency fluctuates only with that of the Coin—Circumstances which render the precious Metals less liable to Fluctuation of Value than other Commodities—Hoards, their Origin, Laws, and Effects—Slow action on Prices of the discovery of the South American Mines, and of the French Assignats—How the action of Hoards in regulating the value of Gold is affected by the transfer of those Hoards from the custody of Individuals to that of Banks.

I HAVE stated now, I believe, the chief characteristics which distinguish a mixed currency of coin and convertible notes from currencies either purely metallic or conventional, and have endeavoured to explain the principles on which they severally fluctuate. Those principles exclude all idea of the possibility of such an over-issue on the part of bankers, as can affect prices. The value of a really convertible currency must always be identical with the value of the coin into which it is convertible, and can only vary with variations in the value of the coin. This is almost, indeed, too self-evident a proposition, to require any demonstration. But even those fluctuations in the exchangeable value of metallic money, or of a credit circulation based on the metals, which originate in variations of the productive power of the mines, are of much less importance than has sometimes been supposed. In my argument hitherto, I have allowed it to pass for granted, that the precious metals are liable to the same continually-recurring vicissitudes of value, from occasional variations in the cost of production, or in the proportion of the supply to the demand, which are incident to other commodities. But the fact is not so. There are several circumstances, partly arising out of the peculiar properties of the metals themselves, but principally and specially connected with the functions

which they perform as money, and the almost universal acceptance which they find over the world in that capacity, which materially modify the operation of the general laws of price in relation to those substances. Their peculiar durability has been favourable to the accumulation of a prodigious stock of these metals from the earliest ages,—a stock out of all proportion to the demand for consumption, as that phrase is ordinarily understood; and the general avidity to possess them, on account of their peculiar attributes as money, as the universal equivalent, which commands in all parts of the civilized world whatever is necessary or desirable for the use of man, and which, from the smallness of its bulk as compared with its value, is more easily concealed or transported on any emergency to a place of safety, in countries where property is insecure, than almost any other description of wealth, has led to the formation of vast hoards, which perform a part in the economy of the currencies of all countries, of which, so far as I am capable of judging, the importance has never yet been sufficiently appreciated. Mr. Jacob has computed the entire stock of gold and silver existing in Europe, Asia, and America together, at 1150 millions sterling, and there are probable grounds for regarding his estimate as, in various particulars, very much below the truth.* This immense treasure offers an almost incalculable resource, for the correction of casual irregularities in the productiveness of the mines, and for the equalization of the supply of the metals from year to year. The yearly addition contributed to this store from the mines, and which in ordinary times is probably little more than sufficient to supply the intermediate deterioration from wear, is not supposed to bear a larger proportion to the whole stock than a fraction of less than three-quarters per cent.; so that any possible fluctuation in the amount of that yearly addition can be

* Mr. Senior, in his 'Lectures on the Cost of obtaining Money' (p. 21), assumes 2000 millions sterling as the amount of gold and silver bullion, coin and plate together, in use throughout the world.

but the fraction of a fraction, and, unless prolonged and repeated through a succession of years, could be of no significance, even if uncompensated, in its influence on markets. But even that extent of derangement, to which the general scale of prices might otherwise have been liable, is in a great degree counteracted by the intervention of the hoards. The hoards absorb the superfluous produce of the mines when it is overflowing, and discharge it again when it is wanted for use; so that the fluctuations of supply do not, under ordinary circumstances, affect at all that portion of the coin which circulates, and which alone operates on prices, but only that portion which is hoarded. Neither is it necessary, that there should be any preliminary action on prices, in order to call the hoarding principle into activity. The amount of the hoards is not governed by the state of prices, but by the market-rate of interest, which, however it may be essentially identified with the rate of profits on capital, it is well known rises and falls in the first instance, with every contraction and expansion of the medium through whose agency capital is distributed, whether that be money or credit.

No person who has ever resided in an Asiatic country, where hoarding is carried on to a far larger extent in proportion to the existing stock of wealth, and where the practice has become much more deeply engrafted in the habits of the people, by traditionary apprehensions of insecurity and the difficulty of finding safe and remunerative investments, than in any European community,—no person who has had personal experience of this state of society, can be at a loss to recollect innumerable instances of large metallic treasures extracted in times of pecuniary difficulty from the coffers of individuals, by the temptation of a high rate of interest, and brought in aid of the public necessities, nor, on the other hand, of the facility with which those treasures have been absorbed again, when the inducements which had drawn them into light were no longer in operation. In countries more advanced

in civilization and wealth than the Asiatic principalities, and where no man is in fear of attracting the cupidity of power by an external display of riches, but where the interchange of commodities is still almost universally conducted through the medium of a metallic circulation, as is the case with most of the commercial countries on the continent of Europe, the motives for amassing the precious metals may be less powerful than in the majority of Asiatic principalities; but the ability to accumulate being more widely extended, the absolute quantity amassed will be found probably to bear a considerably larger proportion to the population. In those states which lie exposed to hostile invasion, or whose social condition is unsettled and menacing, the motive indeed must still be very strong; and in a nation carrying on an extensive commerce, both foreign and internal, without any considerable aid from any of the banking substitutes for money, the reserves of gold and silver indispensably required to secure the regularity of payments, must of themselves engross a share of the circulating coin, which it would not be easy to estimate.

In this country, where the banking system has been carried to an extent and perfection unknown in any other part of Europe, and may be said to have entirely superseded the use of coin except for retail dealings and the purposes of foreign commerce, the incentives to private hoarding exist no longer, and the hoards have all been transferred to the banks, or rather, I should say, to the Bank of England. But in France, where the bank-note circulation is still comparatively limited, the quantity of gold and silver coin in existence I find now currently estimated, on what are described as the latest authorities,* at the enormous sum of 120 millions sterling; nor is the estimate at all at variance with the reasonable probabilities of the case. Of this vast treasure, there is every reason to presume, that

* See Sir William Clay's 'Remarks,' &c., p. 25.

a very large proportion, probably by much the greater part, is absorbed in the hoards. If you present for payment a bill for a thousand francs to a French banker, he brings you the silver in a sealed bag from his strong room: and not the banker only, but every merchant and trader, according to his means, is under the necessity of keeping by him a stock of cash sufficient not only for his ordinary disbursements, but to meet any unexpected demands. The purpose of banks, according to the excellent aphorism of Adam Smith, is not to supply the trader "with the whole or even any considerable part of the capital with which he trades, but that part of it only which he would otherwise be obliged to keep by him unemployed, and in ready money, for answering occasional demands."* That the quantity of specie accumulated in these innumerable dépôts, not in France only, but all over the Continent, where banking institutions are still either entirely wanting or very imperfectly organized, is not merely immense in itself, but admits of being largely drawn upon, and transferred even in vast masses from one country to another, with very little, if any, effect on prices, or other material derangement, we have had some remarkable proofs. Among the examples most frequently referred to is the circumstance remarked by Lord King, that the displacement and expulsion of the entire metallic circulation of France by the assignats had been accomplished without producing, as he affirms, any sensible effect on the state of prices in the neighbouring kingdoms. So much uncertainty, however, hangs over the facts connected with this extraordinary operation, and there are such strong grounds for supposing, that by far the larger portion of the specie, which disappeared during the reign of the assignats, was not exported, but buried and concealed on the spot, that the case, perhaps, is scarcely one on which we can build any very confident argument. A much more conclusive inference may be

* See Mr. M'Culloch's edition of 'The Wealth of Nations,' vol. ii. p. 49, 50.

drawn from the signal success which attended the simultaneous efforts of some of the principal European powers (Russia, Austria, Prussia, Sweden, and Denmark) to replenish their treasuries, and to replace with coin a considerable portion of the depreciated paper which the necessities of the war had forced upon them, and this at the very time when the available stock of the precious metals over the world had been reduced by the exertions of England to recover her metallic currency. Lord Ashburton estimated, in 1819, that little less than a hundred millions sterling would be required, for the completion of the various projects of monetary reform at that period in progress.* And though this, probably, was an exaggerated view of the case, there can be no doubt that these combined operations were on a scale of very extraordinary magnitude, that they were accomplished without any sensible injury to commerce or public prosperity, or any other effect than some temporary derangement of the exchanges, and that the private hoards of treasure accumulated throughout Europe during the war must have been the principal source from which all this gold and silver was collected. And no person, I think, can fairly contemplate the vast superflux of metallic wealth, thus proved to be at all times in existence, and, though in a dormant and inert state, always ready to spring into activity on the first indication of a sufficiently intense demand, without feeling themselves compelled to admit the possibility of the mines being even shut up for years together, and the production of the metals altogether suspended, while there might be scarcely a perceptible alteration in the exchangeable value of the metal.

It is in these causes only we have to seek for an explanation of that very striking phenomenon in the history of prices, the exceedingly slow and gradual process by which the great revolution of prices which followed the discovery of the South American mines

* See 'Report of the Lords' Committee of 1819, on the Bank of England,' p. 102.

was effected; and, what might seem still more unaccountable, the tardy reluctance with which the first downward impulse was given to prices in France, even under the overwhelming pressure of the assignats. It was not in fact till the year 1570, sixty-eight years after the first considerable shipment of specie from South America by Ovando, forty-nine years after the capture of Mexico, and twenty-eight years after the mines of Potosi had been at work, that any very sensible effect was produced on the general prices of commodities in England; nor have we any evidence to show, that the advance commenced in France, in Spain itself, or in any other country of Europe, at a much earlier period.* It is likewise an authentic fact, attested by Mr. Arthur Young,† that in May, 1791, after the assignats had been for eight months in circulation, and after many hundred millions of them had been issued, the prognostics of enormous depreciation which had been pronounced by M. Decretot and M. Condorcet, “were not verified;” that the expected rise of commodities had not taken place; that corn had rather fallen in value; and that the discount on the paper (from 7 to 10 per cent.) was not higher than it had been at Bourdeaux in September, 1790, the first month of its creation. Yet, by 1796, the value of the assignat was reduced to the three-hundredth part of its nominal amount.

These are significant facts for those gentlemen theorists to ruminate upon, who look to the daily rise and fall of prices as indicating the daily expansions and contractions of the currency, with the same certainty and fidelity as the expansions and contractions of the mercury in the thermometer indicate the variations of the temperature. Admit that a currency cannot be over-issued so long as it is convertible, and nothing can be more obvious or simple than the explanation of the

* See Smith's ‘Wealth of Nations,’ ed. 1828, vol. i. p. 315.

† See Arthur Young's ‘Travels in France,’ in Pinkerton's Collection, vol. iv. p. 406.

length of interval which had to elapse before the issue of assignats operated on prices. It is clear that, so long as there was a piece of gold or silver circulating in France, the inconvertibility of the new paper could not be complete. There was still a portion of the currency, which the people had it in their power to throw off or withdraw, whenever the quantity in their hands became oppressive. For every assignat issued, a piece of coin was displaced; and so long as this continued, there could be no increase of aggregate quantity, nor any depreciation. The depreciation only commenced after the coin was exhausted. I should be glad, if the gentlemen in question would furnish us with an explanation of this phenomenon, upon their hypothesis.

I shall presently have occasion to revert again to this subject of the hoards, with reference to the part performed by them in the regulation of the exchanges. Meanwhile,* it may not be irrelevant, ere I close my observations as to their influence on metallic value, to consider for a moment how that influence may have been affected by the substitution of the banking for the private hoarder, and the concentration of all the accumulations of surplus coin in the banks. I have said, that, in this country, by the necessary operation of our system of banking institutions, all our hoards have been transferred to the Bank of England. Our Mint is open to receive all the gold that is brought to it from the four quarters of the world, and to coin it free of charge. And the importer, who may find it inconvenient to wait

* (*Note to the Second Edition.*)—Having seen occasion, since the publication of the first edition of this treatise, to distrust the accuracy of some portion of my reasonings, as to the possible effect of requiring the Bank of England to purchase all the gold that is brought to it for sale, under the contingency of any great increase taking place in the productive powers of the mines, I have thought it necessary to exclude altogether from this revised edition, the whole of my original statements on that part of the subject, comprehended between the second sentence of this paragraph and the conclusion of the chapter, and to substitute the observations in the text as they now stand.

till the operation of coinage be completed, can obtain prompt payment for his bullion at once from the Bank, at the cost of a very small deduction, quite inadequate to compensate the Bank for the loss of interest which it has to incur pending the process. Ever since the restoration of cash payments, it has been the practical rule of the Bank of England to receive indiscriminately all standard gold bullion tendered to it for sale, at a price only a small fraction below that of the Mint, and which has varied from 3*l.* 17*s.* 6*d.* to 3*l.* 17*s.* 9*d.* per ounce, the latter having now been the fixed rate for a considerable succession of years. This practice, hitherto voluntary on the part of the Bank, is for the future to be obligatory; the new Act requiring that the Bank shall at all times purchase whatever standard gold may be offered to it at the stated price of 3*l.* 17*s.* 9*d.*, which leaves a difference of only 1½*d.* per ounce between the amount demandable by the merchant and that which the Mint delivers in coin. Now, though gold coin forms a part of the circulation in almost every country of Europe, it is only in England that gold is the standard metal,* or is coined free of charge to the importer. In other countries, the market price of imported gold is estimated in the silver or conventional money of the realm, and varies according to the state of the supply; while here equal weights of gold bullion and gold money may be said to be, within a very small fraction, at all times identical. Thus England holds out to the bullion-merchant a never-failing market for his gold; in England there is never any abatement of the demand for it; and the Bank of England naturally becomes a sort of general receptacle for the surplus produce of the gold mines in every quarter of the globe.

It is evident, then, that, under such circumstances, the markets for gold all over the world must be governed by the market in England. No importer will submit to

* I believe I ought also to except Portugal.

part with his gold bullion for a much smaller price than he has been accustomed to receive in the silver and base coins of continental nations, when, by sending it to England, he can always command a fixed equivalent in the standard gold money of that country. It seems clearly, therefore, to follow that, so long as this system continues in vigour, no augmentation of the productive power of the gold mines will ever make itself felt on prices in the general market of the world, until the redundancy of the stock be first manifested by some distinct indication from this country. Whatever may be the amount of the annual supply, whatever the surplus left after satisfying the periodical wants of other countries for consumption and coinage, England has bound herself to take off the remainder at a stated valuation in coin of the same metal, and to England that surplus must go. But the single receptacle for gold in England, with very trifling exceptions, is the Bank of England; and for every ounce of gold which the Bank purchases, it issues a corresponding amount either of bank-notes or of coin. It might seem, therefore, on a superficial view of the case, as if the practice of hoarding, which in specie-circulating countries, and under the spontaneous administration of individual hoarders, tends so powerfully to neutralize the effects of any increased supply of the precious metals, and to retard their action on prices, must become inoperative for those purposes when brought into association with the banking system. The specie locked up in the coffers of private hoarders is entirely withdrawn from the market, and can no more influence its fluctuations than if it had no existence; whereas for every ounce of gold received into the Bank of England, a corresponding weight in coin, or an equivalent in bank-notes, is issued to the public. But it must not be supposed, that either the coin or notes, because issued by the Bank, would necessarily be circulated by the community. If there has been no pre-existing demand for an addition to the circulating medium, if there be no new capital to be distri-

buted, no new channel of commerce to be opened, nor any great discovery in mechanics to be worked out into active and profitable existence, the arrival of a million of new gold from abroad will assuredly create none of these things. The million in coin or notes, which the Bank issues in exchange for that new gold, will fare just as all the issues of the Bank invariably fare, which are sent into a market having no employment for them. The holders will immediately become competitors for a share of the productive securities floating in the market, for a share of the Exchequer bills, the Consols, and the discounts. In the discount-market they will come into immediate competition with the Bank of England; and by offering the money at a rate of interest below the Bank rate, they will be enabled to intercept a portion of the bills on their way for discount to the Bank. The sellers of the Exchequer bills and of the Consols, into whose hands another portion of the coin or notes may be supposed to have come, will in their turns have to find new investments for their money, and many of them may be expected also to resort to the discount-market; and thus the process will go on from hand to hand till the discount-market shall have absorbed the whole million. The Bank meanwhile will have its notes flowing in fast, in payment of the bills of exchange previously in its hands, as they successively become due, while there will be no vent for its notes in fresh discounts; and the result of the whole will be, that, at the end perhaps of a week, the Bank will find itself with a million more of coin in its coffers, and a million less of securities. So long as the Bank has a sovereign out on terminable securities at short dates, the channel of reflux must remain open, and the Bank is utterly impotent to add a superfluous note to the currency.

I am assuming, indeed, in this argument, that the Bank has always a considerable portion of its funds lent on discount, or otherwise placed out on short loans, sufficient to secure the regular reflux of its paper; and that

assumption may not be strictly true. The stock of bills held under discount by the Bank, though never entirely exhausted, has sometimes been reduced to a very low ebb. And there have certainly been indications abroad for some years past of a progressive increase in the annual supply of gold, which, if continued, under such improved facilities of production as materially and permanently to enlarge the existing stock of the metal, with the exchange still running in favour of this country, may cause an accession of treasure, sufficient almost to extinguish for a time the market rate of interest, and certain to become ere long intolerably oppressive to the Bank. Any redundancy of the circulating medium, whether in coin or paper, would be absorbed and kept down by the action of the Bank itself, so long as any channel of reflux remained open through the bill circulation. But, let that channel once be effectually obstructed, and the communication between the Bank and the money-market absolutely cut off by the suspension of all applications for discount, every fresh issue of the Bank for the purchase of gold, unless returned in the shape of a deposit, would then be so much permanently added to the circulation; and, to maintain the efficacy of the hoarding principle, in keeping down the mass of circulating coin and paper to the level of the public demand, the general co-operation of all holders and receivers of money would necessarily be called into action. Large sums of unemployed notes or gold would accumulate in the hands of private bankers and other individuals, or for greater security and convenience would be transferred by them to the custody of the Bank of England, there to remain for a season unproductive and profitless. How long this state of things could continue without giving rise to any action on prices, I certainly shall not take upon me to determine. But, barring the intervention of any extraordinary opposing circumstances, political or financial, the first relief to the market might naturally be expected, from the efforts of capitalists to obtain productive invest-

ments for their capital, by sending it to foreign countries. Those efforts, it may be presumed, would, unassisted, be sufficient to ensure the exportation of some part, at least, of the superabundant store of specie; and, by promoting its more equal distribution over the world, would prepare the way for that general re-adjustment of prices to the new scale of metallic value, which, if the augmented scale of production and diminished cost of the gold were anything more than an accident of the day, would sooner or later be inevitable.

CHAPTER V.

Proofs of the Impossibility of Over-issue—Bankers have neither the power to Increase nor the will to Reduce their Issues—Effect of the establishment of Joint-Stock Banks on the Circulation—Scotch Circulation—A demand for Capital on Loan and a demand for additional Circulation are quite distinct things, and not often found associated.

BUT, to return to the question of fluctuation of value, as it applies to a circulation of convertible bank-notes. I have endeavoured to point out the circumstances, which in this respect peculiarly distinguish every such circulation from currencies either purely metallic or consisting of inconvertible conventional paper, and which completely protect, as I conceive, the former from any oscillations of value other than such as they partake with the metals into which they are convertible, and render over-issue and temporary depreciation impossible. It remains only to be seen, how far this doctrine is borne out by the evidence of facts.

I presume it will be admitted, that, in every civilized community, the supply of the circulating medium, in one form or another, ought to be sufficient for the convenient performance of all transactions of exchange or payment requiring its intervention; that to this extent every individual, having value to give or security to pledge, ought to be enabled to command such circulating medium, and that there can be no excess of supply so long as these limits are observed. It would seem, indeed, sometimes, from the casual expressions of disputants, as if they were disposed to contest this proposition, and to question the safety and propriety of indulging every one with the free use of as much money as he wants for his business, and has the means or credit to

procure. But, as I certainly have never met with anything like a broad or deliberate assertion of so preposterous a doctrine, I shall not permit myself to suppose, that it has ever been seriously entertained. With the superabundance of disposable capital which Great Britain possesses, I cannot doubt for a moment that, if the Bank of England were shut up to-morrow, and all credit circulation extinguished, a sufficient stock of gold and silver would, on the demand of the public, within a shorter or longer period, be provided, to answer fully all the necessities which I have stated; and no circulation of convertible bank-notes, issued in quantities corresponding with the demand of the public, could do more. To suppose that, if issued in larger quantities, they could be kept in circulation, is to take it for granted, that the amount of notes in circulation depends, not on the wants of those who circulate them, but on the will of the issuer. On the first establishment of a bank of issue, in a district which had not been previously provided with banking accommodation, the command of capital which the banker acquires from the substitution of his notes for the money previously in circulation, and which enables him to diffuse credit and prosperity throughout the neighbourhood, is very striking. And people easily fall into the delusion, that there is no limit to this power, but that the banker can still go on adding to his notes, and giving a fresh impulse to the prosperity he has created, even after the substitution has been completed, and his paper already fills the channels of circulation. Were this so, it is obvious, that what is called over-issue would be perpetual; for it never ceases to be the interest and desire of the issuer to send out as many notes as the community will receive from him. It is quite idle to talk, as some reasoners are in the habit of doing, of bankers exercising the privilege of issue at one time with exemplary moderation, and at another with reckless imprudence. There is no such thing. Bankers will be more or less prudent in the *facilities of credit* which they

afford to their customers, according to the state of their own circumstances and those of the times; and their advances must necessarily at all times be limited by their command of capital. But, whether the banker's advances be large or small, whether the aspect of the times be cheerful or disheartening, it must be equally his policy to keep out as large a *circulation* as he can. What advances he does make, he will always be anxious to make in his own notes, because they yield him a profit such as no other form of issue yields.

It may be stated, therefore, as a settled principle, that the efforts of banks of issue to extend their circulation know no remission; that the whole system, in fact, is continually on the stretch; and that, but for the antagonist force which is always in action to correct and repress it, the overflow of notes would be irresistible. Upon this ground alone, then, there seems to me to be an effectual negative to the supposition, that the fluctuations of the bank-note circulation depend on the discretion of the bankers. A man who has already put forth his whole strength, has no further effort left to make. The state of a banker, who has already issued every note which those who deal with him will take from his hands, becomes thenceforth entirely passive. He cannot issue another till there is a fresh demand. And if there be each time a fresh demand, I apprehend, there can be no over-issue,—no redundancy which can possibly affect prices. It is true, that, though a banker has no power to enlarge his issues beyond their ordinary and natural limit, he has full power to contract them. A banker may die or fail, and his whole circulation may, in consequence, be withdrawn from the market; but the only effect will be, that the nearest banker in the neighbourhood will fill up the void. Or a banker may be compelled by law to reduce his circulation; but, except in so far as concerns the currency of notes under five pounds, he never has been so compelled hitherto; and therefore any contraction of his circulation is just as effectually prevented by the want of

will as any enlargement of it is prevented by the want of power. The Bank of England is the only bank, which has ever even professed a purpose of restraining its issues from a principle of duty; but it is absolved now, I believe, by all parties, from the imputation of having seriously carried that profession into effect on any occasion since 1797, when, by the stringent contraction of its discounts, it did certainly contribute largely to promote the panic which then existed in the country, and only hastened the catastrophe it intended to avert.

I would further refer, in support of the proposition which I am now maintaining, to the case of those various other forms of credit—the bills of exchange, Exchequer bills, &c., which are not in the disposition of bankers at all, but which are frequently resorted to by individuals as instruments of exchange, and are always to be had by those who have value to give for them, in much greater profusion than for such purposes is ever required. As far as concerns those instruments, at all events, no question of over-issue can possibly ever arise. They are created for other purposes, and always exist in an abundance which must set at nought every idea of their over-issue as currency. The extent to which such instruments are substituted for money can by no possibility be regulated by anything else than the demand.

I am not more disposed than most men to place implicit reliance on the testimony of parties who have personal interests depending on the question at issue; but it is impossible, I think, for any man, with the least pretensions to candour, to peruse the great mass of evidence furnished to the several Committees of the House of Commons by the intelligent body of country bankers, without attaching some faith to their unanimous and consistent assurances, sustained, too, as those assurances are, by all the collateral facts and probabilities of the case, that the amount of their issues is exclusively regulated by the extent of local dealings and expenditure in their respective districts, fluctuating with the fluctuations of

production and price, and that they neither can increase those issues beyond the limits which the range of such dealings and expenditure prescribe, without the certainty of having their notes immediately returned to them, nor diminish them, but at an almost equal certainty of the vacancy being filled up from some other source.*

* See the Evidence of Mr. Hudson Gurney before the Commons' Committee of 1819—Report, p. 249; Mr. Rickman's, before the Committee of 1826—Report, p. 119-121; Mr. Samuel Gurney's, before the Committee of 1832—Report, p. 256; and Mr. Hobhouse's, Mr. Rodwell's, and Mr. Anderson's, before the Committee of 1841, pp. 5, 61, and 210, 211. In 1819, Mr. Hudson Gurney observes, "If a banker improvidently issued upon loan, or in any other way, notes which are not wanted for the transactions of immediate transfer in his neighbourhood, they come directly to him or to his banker in London to be paid." And he then proceeds to express his doubt, whether, in the event of his bank at Norwich issuing 100,000*l.* in their own notes to-morrow, to any one desiring to borrow them, the bank would have, by to-morrow week, an additional note in circulation. Mr. Kinnear says, "It rarely happens, that a note for 100*l.* circulates beyond a few hands." "It is a mistake," remarks Mr. Samuel Gurney, "to talk of the over-issues of country bankers, as if they were under their own control, and did not fluctuate wholly and solely with prices and the extent of transactions, or could be increased by the amount thus called for. If they did not issue their own paper, they must, when their district calls for it, issue Bank of England notes." In the same strain, again, we are told by Mr. Anderson of Glasgow, that "An extra issue of notes to meet an extra local demand, may give a little extra interest for a day or two; but it becomes at the next exchange an advance of capital. The proportion of notes which remains in the hands of the public, and which may be reckoned circulation, is that required for small payments, as wages and other daily expenditure. Everything above this is paid into other banks, or comes back immediately." The most striking illustration, however, of the facility and expedition with which any over-issue of notes by a private bank, consequent on some temporary or local demand, rectifies itself as soon as the demand ceases, is perhaps to be found in an anecdote related by Mr. Gibson Craig to the Committee of 1826. (See Report, p. 268.) "At Whitsuntide, 1824," Mr. Craig says, "there was such an immense demand for notes upon the banks of Edinburgh, that by eleven o'clock they had not a note in their custody; they sent round to all the different banks to borrow, but could not get them, and many of the transactions were adjusted by *slips of paper* only; yet by three o'clock the whole of the notes were returned into the banks from which they had issued! It was a mere transfer from hand to hand." Nor is this a solitary example of the same phenomenon.

It may rest with the banker to issue, but it is the public which circulates; and without the concurrent action of the public, neither the power nor the will to issue can be of any avail. Both the metropolitan and the country circulations are subject to certain periodical floods and ebbs from regularly recurring causes, over which the issuing bodies have no control, and which are found to be of little if any effect beyond the immediate range of the circumstances in which they originate. It is well known, that at the quarterly periods, when the public dividends fall in course of payment, the Bank of England adds regularly from a fifth to two-fifths to the amount of its issues. Has any one ever heard of an instance, in which any of these great periodical expansions of the Bank circulation have, in any sensible degree, disturbed markets or caused a general rise of prices? Nothing of the kind. The self-regulating principle of a convertible currency operates in every such case with the precision of clock-work. The remedy is not even postponed till the end of the quarter, when the balance would be restored by the influx of the revenue. But such is the elasticity with which the general circulation throws off the superfluous load which encumbers it, that the surplus notes are usually returned into the Bank, and the currency restored to its average level, within a few weeks after the recurrence of each quarterly period. This effect is uniformly produced by a reduction of the

I am assured, from authority entitled to the highest reliance, that, although the average effective circulation of bank-notes in Scotland falls short of three millions sterling, there occur several occasions yearly when every note in the possession of the bankers, amounting in all to about seven millions, is called into activity. On those occasions the notes have a single and special office to perform, and, that office fulfilled, they flow back again into the respective banks from which they issued. A more innocent, yet at the same time often useful, application of the facilities of banking credit than is exhibited in these extraordinary issues, for the performance of isolated classes of transactions, can scarcely be imagined; yet it is against accommodations like these that the restrictions of the new code appear to be more especially directed.

demand, on the part of the public, for accommodations from the Bank by way of discount or loan,—a reduction which follows, with immediate and striking regularity, every such extraordinary augmentation of the Bank issues.

I have now before me a table compiled from the Appendices to the Parliamentary Reports of 1840 and 1841, which presents a view of the quarterly fluctuations of the Bank circulation during four years, selected at random from the interval between 1833 and 1840, and contrasts therewith the corresponding fluctuations of the Bank's discounts and floating advances on Exchequer bills and private securities during the same periods. The result shows a constant and periodical decline of the amount of outstanding discounts and advances, from the day on which the dividends are issued till the circulation is completely restored to its former level, which happens generally about the middle of the second month in every quarter of the four years, with the exception of the fourth quarter of 1835, in which the deviation from the general rule is sufficiently accounted for by special circumstances.

The country issues have, in like manner, their periodical fluctuations. In the agricultural districts, there is a difference to the estimated amount of half a million between the number of notes circulating in August, and the number circulating in April. In August, the currency is found to be uniformly lowest; it rises generally towards Christmas, and obtains its greatest elevation about Lady-day, when the farmer commonly lays in his stock, and has to pay his rent and summer taxes.* These variations recur with the same regularity as the season, and with just as little disturbance of the markets as the quarterly fluctuations of the notes of the Bank of England. As soon as the extra payments which I have mentioned have been completed, the superfluous half-million as certainly and immediately is re-absorbed and

* See 'Report of the Commons' Committee of 1841,' pp. 5 and 59.

disappears, and that on the mere cessation of the demand, without the slightest effort on the part of the banks.

A still more remarkable and decided test, however, than any of these, of the utter powerlessness of banks to increase the issue of their notes *ad libitum*, has been supplied by the recent history of our currency from the period of the first introduction of the joint-stock banks in 1833 to the present time. These gigantic establishments began to spring up at a season when the industry of the country, more particularly in its manufacturing and mining departments, had just received an impetus which, in the course of the three following years, was productive of results perhaps without a parallel in our domestic history. The succession of productive harvests from 1833 to 1835, and the abundance and cheapness of the necessaries of life in general, seem to have given a remarkable stimulus and extension at this period to our internal consumption. The spirit of adventure was abroad: besides the new banks, other great joint-stock companies were formed, for the construction of railways and a variety of projects, chiefly of internal improvement; and a vast enlargement was given to our commercial dealings with the United States of America and with the East. According to the commonly received opinions on the subject, every circumstance seemed to favour the expectation that, among other developments of credit, a considerable addition to the bank-note circulation would be called for, to feed the activity and enterprise that were in progress. And the new establishments were scarcely set on foot, ere they entered on a career of the most uncompromising competition with the private banks and the recently established branches of the Bank of England, and prosecuted that competition by the most unscrupulous means. So systematic, determined, and powerful a series of efforts to enlarge more particularly the circulation of bank-notes had probably never been attempted since the invention of banking.

And what has been the result? With all their zeal and emprovement to attract and create employment for their paper, what were these hundred and seven great companies, with their fifteen millions of paid-up capital, their subscribed capitals of ten times the amount, and all that prodigious command which, through their interest accounts and their re-discounts in the London market, they obtained over the capital of others, with their four hundred and seventy-one branches and agencies penetrating into every corner of the kingdom, and carrying their paper circulation into quarters where the name of a bank had never till that time been heard of,—what, with all this, did they accomplish? By the facilities of credit which they afforded to wild speculators, men without capital of their own, they contributed largely, it is true, to the calamitous reverses which soon followed. They succeeded also, to a considerable extent, in driving weaker or less venturous rivals from the field, and in usurping more than a fair share of such additional issue of bank-notes as the stir of industry and the extension of production between 1833 to 1839 had called into existence. But, far from contributing to the eventual enlargement of the aggregate mass of the bank-note circulation, the effect of this competition from the first was obviously to keep it down. The utmost expansion at any given period from 1833 to 1839 will not bear a comparison with the fluctuations of any of those seasons of extraordinary commercial activity which preceded the chief monetary crises of the last half-century, in 1809 or 1814 for example, or in the early part of 1824-5. What at any time they added to their own circulation, was obtained for the most part at the expense of others. They succeeded, in concurrence with the new branches of the Bank of England, in supplanting nearly altogether the bill currency in Lancashire and other manufacturing counties; the issues of the country banks, with every other circumstance favourable to their augmentation, exhibited in every year but 1838 a progressive de-

cline; and, notwithstanding the considerable share of the country circulation, which the Bank of England had recently appropriated to itself through its branches, the total issues of that establishment diminished almost *pari passu* with the growth of the joint-stock circulation, and to such an extent, that, between October 1833 and December 1835, the very period when the spirit of commercial enterprise reached its height, the reduction amounted to three millions and upwards. There was a rally, indeed, to some extent in 1836; but, upon the unfavourable turn of commercial affairs in 1839, and the depression of industry and credit which followed, the reduction was carried still further. The return of the 24th December of that year gives the total circulation of the Bank of England under that date at only 15,532,000*l.*; and as of that sum 3,818,000*l.* were issues made through the branches, there remained for the circulation of the metropolis and its environs only 11,714,000*l.*, a sum more nearly corresponding with the average issues of the Bank of England previous to 1797, than with the minimum metropolitan circulation of any more recent period. Nor was this decline any longer compensated by the increased issues of the joint-stock banks. Those institutions had by this time fallen into discredit and disrepute, from the failure of some, and the flagrant mismanagement of more; and their issues, as well as those of the private banks, partook with the circulation of the Bank of England, of that general declension which was by this time in full progress, and which brought down the whole circulation of England and Wales, metropolitan, private and joint-stock, to 25,010,706*l.*, in the first quarter of 1842, being upwards of three and a half millions less than the average circulation of 1833; though, during the interval, the population of the kingdom had increased in the proportion of about one-tenth, and the consumption of commodities had on the whole kept pace with the growth of population.

Nor even at the present day, when the state of industry

and commerce might have been expected to furnish employment for as full a currency of bank-notes as at any preceding period, have the issues of the Bank of England by any means recovered the level which they maintained for some years previous to the organization of the joint-stock banks in 1833. From the monthly average, amounting to 20,754,000*l.* for the first quarter of the current year, between six and seven millions, being composed of the issues of the branches, must be set to the account of the country circulation, leaving only about fourteen millions for the circulation of the metropolis, or little more than two-thirds of the average issues of the Bank, from 1827 when the notes under five pounds were finally suppressed, till 1833 when the branches were first instituted.

The tendency on the part of our bank-note circulation to a progressive diminution of quantity, which these facts appear so conclusively to establish, and which for some years past has been giving much uneasiness to many worthy persons, who regard it as nothing less than a sign of national impoverishment and decay, admits of a very easy explanation. It is clearly traceable to the substitution of another medium of credit in a large proportion of the transactions, which, previous to 1833, used to be performed by means of bank-notes. The truth is, that the joint-stock banks have been far more successful in their efforts to promote and extend the use of banking accounts among all ranks throughout the kingdom, than in their attempts to engross or enlarge the circulation. This they have partly accomplished, by the facilities for that purpose which their numerous offices, dispersed over the country, afford to every man, but chiefly by the practice which they have borrowed from the Scotch bankers, of allowing interest to their depositors, and which, by the force of their example and competition, has become also, I believe, a very general practice among the private bankers everywhere but in London. The inducement which such a system holds out to individuals

to become depositors in banks, and to those who are already depositors to increase their deposits, are sufficiently obvious; and it is equally apparent that such circumstances must have a decided influence in reducing the circulation of bank-notes. The tradesman, instead of keeping by him an unproductive hoard of such notes for his daily disbursements, will prefer paying them into a bank which allows him interest for the amount, without any prejudice to his perfect command over the principal. He will make his payments thenceforth by cheque; and those cheques will, in the vast majority of cases, be adjusted by transfer or exchange, without any resort to money.

The Scotch banks, among whom this practice of allowing interest to depositors has been coeval with their existence, are in themselves a standing refutation of the notion that bank-notes can be over-issued at the pleasure of the issuers. In Scotland, the amount of capital employed in banking was nearly doubled between 1826 and 1840; and such has been the multiplication of branches, that it is computed, there is now in that division of the kingdom either a bank or the branch of a bank for every 6000 souls. Almost every person in Scotland above the lowest grade in society employs a banker, and the deposits bearing interest in the hands of the bankers were estimated by Mr. Blair in 1841,* at the astonishing sum of between twenty-six and twenty-seven millions sterling, or about ten times the amount of the circulation. Scotland uses no gold. All her exchanges of purchase and sale, to the value of one pound or upwards, are performed by book-transfer or bank-notes, two-thirds of the whole bank-note issue being taken up in performing the offices of gold. But what has been the effect of all this keen competition of bankers, and multiplication of banking transactions, on the amount of the circulation of Scotland? Why, the

* See Mr. Blair's Evidence before the Commons' Committee of 1841 on Banks of Issue; Report, p. 171.

result has been, that the gross bank-note currency of Scotland, as compared with the population, gives a ratio of only 1*l.* sterling per man, instead of 2*l.* which is the proportion in England; and that, if you deduct the Scotch 1*l.* notes, which correspond with the English metallic currency, the ratio will be nearly as one to six. It is held for an undisputed dogma by many, that an unrestricted currency of paper, from which the use of the precious metals is practically excluded, must, of all currencies, have the most decided tendency to keep up prices; and it is also a maxim at least equally orthodox, that the smaller the amount of a currency in proportion to the stock of commodities to be distributed, the lower must the scale of prices inevitably be. Grant only these two postulates, and it will be equally easy to prove, as you may have a mind, that Scotland must be the *dearest* or the *cheapest* country in the world; for there certainly exists no country whose exchanges are performed so exclusively through the instrumentality of paper, nor any in which the same extent of business, or anything like it, is transacted with so exceedingly small a proportion of circulating medium, though that medium is composed exclusively of bank-notes. I have never heard, however, that the range of prices in Scotland is, on the whole, materially higher or lower than in other parts of the United Kingdom. Indeed, the dearest country, perhaps, in Europe is Holland, where the circulation is entirely metallic. It is not that, in Scotland, the power of credit brought into action for the purpose of facilitating exchange dealings, is absolutely or at all less, in relation to other circumstances, than it is in England. Quite the contrary. The only difference is, that it does not display itself in the same multitude of little slips of paper, which a fantastical conceit has invested with the title of money, and with the privilege of governing prices by their number. Neither is the amount of notes circulated in Scotland proportionally smaller than in England, from any want of will to

circulate them on the part of the Scotch bankers, but simply because the functions of a note currency are better performed by other means, and more notes are not wanted, while, at the same time, all unreal semblances of excess are kept down by the regularity with which the several bankers twice a-week mutually exchange whatever notes of each other's issue they respectively hold, through their agents at Edinburgh.*

It has been alleged, however, that, whatever may be the obstacles to any excess of issue on the part of country bankers, or even on that of the Bank of England, so long as its notes are advanced on bills of exchange or other securities at short dates, the Bank of England has the power at any time of giving permanency to its issues by sending its notes into the market, for the purchase of Exchequer bills, stock, or other securities redeemable only at very distant dates; that in such cases there is no channel open, through which the notes can find their way back to the Bank, and that they must continue, therefore, to surcharge the general circulation, till it is so depreciated as to force a remedy through the exchanges. So extravagant, indeed, are the notions on

* Nothing can more strongly exemplify the confused and crude notions which prevail on the whole of this subject, than the extravagant importance which has been attached to these very simple and natural arrangements of the Scotch bankers, which have been extolled as affording a complete guarantee for the moderate and prudent management of their establishments, and have even been strongly urged as a reason for their being permitted to retain the privilege of issuing notes under five pounds, after the English country banks had been deprived of it. The practice of a frequent interchange of notes between banks of issue is, no doubt, a very laudable and proper one, and tends to preserve regularity and order in their mutual dealings. But I really cannot conceive, how the public should have much concern in the matter. It is not customary, I believe, for issuing bankers in any part of the world (though, from local circumstances, there may perhaps be some exception with respect to those in the United States of America), to re-issue the promissory notes of their neighbours; and, so long as a note is not issued, it can signify, I should suppose, very little to any but the parties, whether it is returned to the issuer or locked up in the drawer of an accidental holder.

this point which have got abroad, that one tells you, "the Bank of England can issue in the London market to whatever extent the Directors may think proper, and the public will not be sensible of the excess until a demand arises for gold;"* while another asserts, that "the Bank of England *creates* capital for itself, when it buys securities and pays for them in its own notes;"† and every fresh note issued for such a purpose is treated by a third, as an express and lasting addition to the existing circulation.‡ There might, certainly, be some force in these allegations, if it were indispensable, to secure the reflux of any excess of notes which the Bank might think fit to issue, that the particular securities on which those notes were advanced should also furnish the channel for their return; though, even in that case, the reduction of the market-rate of interest, which would necessarily follow such an operation on the part of the Bank of England, could not fail to cause such an exportation of bullion as would infallibly relieve the market long before there could be any action on value. But there would be no such necessity. I have already endeavoured to show, how, in the case of a purchase of bullion, whatever notes the Bank may have occasion to issue in excess of the wants of the public, will be immediately thrown back on the Bank through the medium of the discount market; and precisely the same observations will apply to the case in supposition. While the glut lasted, every bill of exchange, on its passage to the Bank for discount, would be eagerly intercepted. The Bank would find the notes which it had advanced on former discounts flowing back upon it as fast as the bills fell due, while there would be no de-

* See Mr. Gilbert's Evidence before the Commons' Committee of 1837 on Joint-Stock Banks; Report, p. 115.

† See Mr. Hobhouse's Evidence before the Commons' Committee of 1841 on Banks of Issue; Report, p. 17.

‡ See Mr. Lewis Lloyd's Evidence before the Commons' Committee of 1819 on the Bank of England; Report, p. 166.

mand for any fresh accommodations. Were it possible that such a state of things could continue long, the facilities of the market would be such, that even the borrowers on mortgage would be found bringing in further parcels of superfluous notes in redemption of their securities; and so long, in short, as there remained a redeemable security in the Bank, a vent would not be wanting for this unprofitable and undesired accumulation of circulating credit.

It is a great error, indeed, to imagine, that the demand for pecuniary accommodation (that is, for the loan of capital) is identical with a demand for additional means of circulation, or even that the two are frequently associated. Each demand originates in circumstances peculiarly affecting itself, and very distinct from each other. It is when everything looks prosperous, when wages are high, prices on the rise, and factories busy, that an additional supply of currency is usually required to perform the additional functions inseparable from the necessity of making larger and more numerous payments; whereas, it is chiefly in a more advanced stage of the commercial cycle, when difficulties begin to present themselves, when markets are overstocked, and returns delayed, that interest rises, and a pressure comes on the Bank for advances of capital. It is true, that there is no medium, through which the Bank is accustomed to advance capital, except that of its promissory notes; and that to refuse the notes, therefore, is to refuse the accommodation. But, the accommodation once granted, everything adjusts itself in conformity with the necessities of the market; the loan remains, and the currency, if not wanted, finds its way back to the issuer. Accordingly, a very slight examination of the Parliamentary Returns may convince any one, that the securities in the hands of the Bank of England fluctuate more frequently in an opposite direction to its circulation than in concert with it, and that the example, therefore, of that great establishment furnishes no exception to the

doctrine so strongly pressed by the country bankers, to the effect that no bank can enlarge its circulation, if that circulation be already adequate to the purposes to which a bank-note currency is commonly applied; but that every addition to its advances, after that limit is passed, must be made from its capital, and supplied by the sale of some of its securities in reserve, or by abstinence from further investment in such securities. The table compiled from the Parliamentary Returns for the interval between 1833 and 1840, to which I have referred in a preceding page, furnishes continual examples of this truth; but two of these are so remarkable, that it will be quite unnecessary for me to go beyond them. On the 3rd January, 1837, when the resources of the Bank were strained to the uttermost to sustain credit and meet the difficulties of the money market, we find its advances on loan and discount carried to the enormous sum of 17,022,000*l.*, an amount scarcely known since the war, and almost equal to the entire aggregate issues, which, in the meanwhile, remain unmoved at so low a point as 17,076,000*l.*! On the other hand, we have, on the 4th of June 1833 a circulation of 18,892,000*l.*, with a return of private securities in hand, nearly if not the very lowest on record for the last half-century, amounting to no more than 972,000*l.*!

CHAPTER VI.

Principles on which Prices fluctuate—How the Amount of the Bank-note Circulation is affected by the Fluctuations of Price—How, where the Rise of Price is occasioned by Dearth; and how, when it originates in an Increased Consumption—Speculations in Produce do not give occasion to increased Issues—Effect of an increased Issue of Notes in seasons of Commercial Revulsion—Answer to the Objections urged by the Currency Party to the Increase of the Country Issues, which takes place whenever the Prices of Corn are raised by Dearth.

IF we turn next to the history of prices, and endeavour to trace that invariable connexion which has been alleged to subsist between the rise and fall of prices, and the expansions and contractions of the note currency, we are confronted at every step by fresh contradictions to the hypothesis that the first-mentioned class of phenomena are in any way governed by the latter. It is a self-evident maxim, that every rise or fall in the money price of goods which proceeds altogether from an alteration in the value of the money, “must affect all goods *equally*, and raise or lower their prices *universally*.”* But we observe no such consentaneous movements of price coinciding with the fluctuations of the bank-note circulation. Between the variations of the corn market, for instance, and the variations of the markets for colonial produce and other foreign commodities, there is no sympathy whatever. In the end of 1824, at the very time that a vast speculative advance was taking place in the prices of most articles of merchandise, the price of wheat, which had risen on some unfounded alarm of scarcity in the preceding year, subsided to 54s. 6d.; and through-

* See ‘Wealth of Nations,’ 1828, vol. i. p. 393.

out all the tremendous vicissitudes of 1825, the price of wheat did not vary more than 4s. in the quarter between April and December. On the other hand, when the prices of cotton and silk fell fifty per cent. in 1837, those of agricultural produce were all the time steadily advancing. Even the several descriptions of grain are not found to rise and fall together. Each article rests on a basis of its own, the price rising or falling according to the state of the supply. And so little have these variations been influenced by the amount of the issues of the Bank of England, that there appears from the investigations of Mr. Tooke to have occurred only one instance within the last half-century, in which an increased circulation of notes has coincided with a rise of the price of wheat (and that only a temporary and trifling rise), and one other case, in which a reduction of the Bank's issues has been simultaneous with a decline in the price of wheat, namely, in 1824 and 1831.

So long as the value of the precious metals is preserved unvaried, prices can only fluctuate from circumstances affecting the supply of the particular commodity which is the subject of variation. But when such circumstances do occur, the effect is irresistible. The irregularities of seasons and harvests are seldom limited to a narrow region of the earth; and when this country has been visited by dearth, it has rarely happened that France and other neighbouring kingdoms have escaped a similar calamity. On such occasions, neither their metallic circulation, nor even (as in 1817*) a favourable exchange and a brisk influx of bullion, has saved those countries from vicissitudes in the price of grain still more severe than even those experienced with us. It may be observed too, that the range of fluctuation from such causes will always be most considerable, in the case of those commodities which are most perishable in their nature, which are kept at the greatest cost, and are not

* See Tooke's 'History of Prices,' vol. ii. pp. 17, 18.

likely therefore to be accumulated, whose abundance or scarcity depends on the fortune of seasons, or other circumstances equally uncertain and uncontrollable, and which are of such indispensable necessity to human existence as to preclude any suspension, or almost any modification of the demand. Hence the fluctuations of corn have been known to take a range of even 200 per cent.; while in the case of many manufactured articles, of which the supply can be increased at a short notice to an indefinite extent, the variations of price are comparatively inconsiderable. The expansions and contractions of the bank-note currency, which, under certain circumstances, are observed to accompany these fluctuations of price, are not the causes, but the consequences, of such fluctuations; they do not precede, but follow them. Of this truth Mr. Tooke has furnished the most elaborate and satisfactory proofs, which I am precluded by my limited space from discussing in detail, but which are open to the examination of any one who will take the trouble of consulting his work on prices. Speaking at so early a period as 1832, Mr. Tooke thus states the general conclusion at which he had then arrived:—"In point of fact, and historically, as far as my researches have gone, in every signal instance of a rise or fall of prices, the rise or fall has preceded, and therefore could not be the effect of, an enlargement or contraction of the bank circulation."*

I am led at the same time to believe, that the limitations under which variations of price thus operate on the amount of the currency may, by simply applying the test of principle, with a very little aid from observation, be detected with tolerable accuracy. It will be admitted, I presume, that the supply of the circulating medium in every country ought to be commensurate in quantity to the number and value of the exchanges which it has to perform. And as the number and value of such ex-

* See Mr. Tooke's Evidence before the Commons' Committee of 1832 on the Bank of England; Report, p. 441.

changes are liable to vary with every variation in the state of industry, as well as with the progress of population, it is obvious that the monetary system would be a very defective one, if the supply of the circulating medium did not vary in corresponding proportions.* If every workman is in full employment, and the demand for labour has caused the market rate of wages to rise from 10*s.* to 15*s.* per week, while the cost of producing many of those articles which give employment to the industry of the country has been proportionally enhanced, prices cannot remain stationary, nor will the same quantity of money suffice for the ordinary payments of society as when industry is stagnant, and the money value of commodities low. To create a demand, however, for additional currency, a mere rise of prices, however important the class of articles to which it may extend, does not seem to be of itself sufficient. To produce that effect, the rise must also be accompanied by an increase of production and consumption. A rise in the price of any given article, or class of articles, occasioned by a deficiency of the supply, whether arising from adverse seasons or any other usual cause of scarcity, must in general be compensated by the diminution of the quantity of the article to be distributed, so that the distribution may still be accomplished with the same amount of money. In the case, however, of an article of the first necessity, like wheat—an article constituting the general food of the people, the effect of a short harvest on prices is not merely to raise them in a ratio corresponding with the amount of the deficiency. The intensity of the demand in such cases increases, instead of diminishing, with the failure of the supply; there arises a

* “It is not,” says Mr. M'Culloch, “by the absolute amount of the currency in circulation in a country, that any correct judgment can be formed as to whether it is in excess or not. At one time an issue of fifteen millions of Bank of England paper might probably be too great, while at another time an issue of twenty or twenty-five millions might not be enough.” See Notes to ‘The Wealth of Nations,’ p. 256.

sort of general scramble for the scanty and waning stock, each individual eager to secure his share of it; and, on occasions when the crop has not been more than a third or even a sixth below an ordinary average, prices, we are assured, have been known to be doubled or trebled.* Hence it happens that, in unproductive seasons, the farmers are always in their greatest affluence, that new capital then flows into the agricultural districts, that a spirit of improvement is excited there, and a demand arises for additional accommodation from the country bankers, and for an extra supply of bank-notes. But the means of expenditure possessed by the population at large are not increased by a failure of the harvest. The incomes of all but those engaged in agricultural pursuits continue the same. And those who live on wages, after providing themselves and their families, at the advanced rates of price, with enough of bread to preserve existence, will have little left for the purchase of other necessaries and comforts, so that the consumption of such articles will be diminished, and their prices must fall. The rise of agricultural produce will thus be counterbalanced, and the increased demand for circulation in the agricultural districts will be compensated by a reduced demand everywhere else. And these results, while they entirely account for the local sympathy observed to subsist between the expansions and contractions of the country note circulation and the prices of corn, serve at the same time to explain and corroborate the fact alluded to in a preceding page, namely, that, with a single and unimportant exception, there has been no example within the last half-century of a coincidence between an increased circulation of the notes of the Bank of England and a rise of the price of wheat.

Where, on the other hand, a rise of prices is not the effect of natural dearth, but of an augmented demand

* See Tooke's 'History of Prices,' vol. i. pp. 12, 13. The world, I believe, is indebted to Mr. Tooke for having first directed attention to this important law.

for commodities, where a fresh stimulus has been given to industry by the opening of new foreign markets or the extension of old markets, by some incidental burst of the spirit of domestic improvement, or the discovery of some new channel for the productive investment of capital, inducing the labourer to devote a greater number of hours in each day to his task, or to acquire and apply a higher degree of skill in his vocation,—in such cases, an increased scale of production and consumption is frequently found for a time to be compatible with an advance in the price of many articles of commerce, and the general sum of transactions requiring the intervention of money may thus be multiplied in number and enlarged in magnitude. Where the currency is purely metallic, the additional circulation required for these occasions would be drawn from the private hoards; while, wherever the credit system prevails, the circulation is supplied by the banks. The only material difference would be, that, to call for the requisite supply of money in the first case, a more stringent preliminary action on the market rate of interest might probably be necessary. The state of circumstances in this country between the years 1833 and 1836 afforded a striking example, as it appears to me, of such a coincidence as I am supposing, between an enlarged scale of production and a range of general prices demanding increased facilities of internal circulation. The vast enterprises of domestic improvement in the construction of railways and other great public works, the extensive creations of additional mill-power to meet an active foreign demand, and the prodigious impulse communicated at the same time and from similar causes to the industry of the mining districts, furnish an ample solution of the anomaly, which was placed in so strong a light in the course of the examination of Mr. Hobhouse before the Committee of 1841, and which appeared to puzzle both the witness and the Committee,—I mean, the addition of some four millions to the provincial bank-note circulation, at the

very time when a remarkable decline in the price of corn ought, according to all former experience, to have produced a fluctuation in the opposite direction, and when the extension of banking facilities, to which I have already adverted, was contributing to displace the issues of the Bank of England, and of all banking establishments without the range of the influences immediately in the ascendant.

But there is a prevailing error connected with this branch of the subject, to which I would more particularly wish to direct attention, and that is, the error of supposing that a wild and reckless spirit of speculation, when it enters the produce markets, and, without any sufficient regard to the state of consumption or supply, launches out in the purchase and accumulation of commodities, with a view to raise their prices and make a profit by the resale, can in any way promote its objects by an increased use of the bank-note circulation. Such speculations may be conducted either with or without the use of credit, either by means of the capital of the speculator himself, or on long credits from the sellers of the goods, or by the aid of loans from bankers or other dispensers of capital. But the very nature of the transaction precludes the possibility of its deriving any assistance from an extension of the note circulation, or of its tending at all to favour such extension. In the first instance, all the great dealings of purchase and sale between the speculator and the producer or importer, the dealings between one speculator and another, even the final sale to the retail tradesman, are adjusted by bill, cheque, or set-off. There is no intervention of the bank-note currency, but for the occasional payment of some trivial fractional balance. Then, when the purchases are completed, the very primary object of the speculator is to obstruct supply, and to limit consumption, by withdrawing a portion of the existing stock of the commodity from the market. It is not commodities piled up in warehouses, with high prices set upon them, which call money into activity.

The commodities must themselves be set at liberty to circulate, and must be actually circulated with a view to consumption, before they require any additional medium to facilitate that circulation. And when again the period arrives for the dispersion of the store, if by chance the speculation has been conceived with foresight, and the market has not been overwhelmed by fresh importations from abroad, the sustained elevation of price will, in all cases but that of the grain which supports life, be compensated by the limitation of the supply; while, in the much more frequent contingency of the speculation failing, and the hoard of commodities being violently broken up, the money prices obtained for them will, in general, fall far short of the original cost.

What has chiefly, I suspect, given currency to the notion, that the issues of the Bank of England are in a high degree accessory to the extravagances of the speculative mania, has been the pressure on the Bank of England for discounts, after the malady has reached its concluding stage, when the excitement has come to a pause, when the market is irrecoverably sinking, discredit spreading rapidly, and payments can no longer be deferred. Then certainly, if the Bank complies with those applications, it must comply with them by an issue of notes, for notes constitute the only instrumentality through which the Bank is in the practice of lending its credit. But those notes are not intended to circulate, nor do they circulate. There is no more demand for circulation than there was before. On the contrary, the rapid decline of prices which the case in supposition presumes, would necessarily contract the demand for circulation. The notes would either be returned to the Bank of England, as fast as they were issued, in the shape of deposits, or would be locked up in the drawers of the private London bankers, or distributed by them to their correspondents in the country, or intercepted by other capitalists, who, during the fervour of the previous excitement, had contracted liabilities

which they might be imperfectly prepared on the sudden to encounter. In such emergencies, every man connected with business, who has been trading on other means than his own, is placed on the defensive, and his whole object is to make himself as strong as possible,—an object which cannot be more effectually answered than by keeping by him as large a reserve as possible in paper which the law has made a legal tender. The notes themselves never find their way into the produce markets; and if they at all contribute to retard the fall of prices, it is not by promoting in the slightest degree the effective demand for commodities, not by enabling consumers to buy more largely for consumption, and so giving briskness to commerce, but by a process precisely the reverse, by enabling the holders of commodities to hold on, by obstructing traffic and repressing consumption.

It is a matter of great scandal with the currency party, that, when the prices of agricultural produce are raised by a failure of the harvest, the country bankers should presume to enlarge their issues at the very time that the Bank of England may be contracting hers. They are not content, that notes should be issued in those places where they are wanted, and withheld in those places where they are not wanted. That, it seems, is not their rule. Mr. Norman makes it a subject of charge, that the circulation of the country banks “increases and decreases with the rise or fall of interest and prices;”^{*} and Mr. Jones Loyd declares it to be “the vital objection to our country issues, that they expand and contract *with prices*, contrary to what ought to be the result upon sound principles, and would be the result with a metallic circulation.”[†] Sir Robert Peel, too, quotes the evidence of Mr. Hobhouse and Mr. Stuckey, and re-echoes the complaint, that the amount of the country issues “is

^{*} See Mr. Norman’s Evidence before the Commons’ Committee of 1840 on Banks of Issue; Report, p. 163.

[†] See Mr. S. J. Loyd’s ‘Letter to J. S. Smith, Esq.,’ 1840, p. 42.

governed by prices, rather than by a reference to the exchanges."*

Upon this point of the exchanges I shall have more to say presently. But, in the meanwhile, I may, perhaps, be permitted to ask, what it is that these gentlemen find so very objectionable in the practice of regulating the country issues by prices, or what better principle of regulation they would propose to substitute? It is clear that the exchanges alone can furnish the bankers with no such rule; for, without a rise of prices, there is no condition of the exchange which could ever enable or even assist them to add a single note to the currency. The country banker is wholly unaffected by the exchanges. How then can he be expected to regulate his issues by them? When the exchange is low, and bullion is wanted for exportation, it is not to the country banker that the bullion-merchant resorts for a supply. Such a thing as a run on a country bank for gold to send abroad, has not been heard of since country banks were first instituted. The only purposes, indeed, for which a country banker need keep gold by him at all, are to supply his customers with small change, and to be prepared against any calls on him, that may possibly arise from internal panic or discredit. It is possible, certainly, for every country banker to consult regularly the exchange lists, and whenever he observes the quotations low, to contract the scale of his accommodations. Bankers, though they cannot increase their issues above the level prescribed by prices, have it always in their power to lower them to any given point, or to withdraw them, if they think fit, altogether. And I do not say, that such a thing may not be met with, as a public-spirited country banker who reads currency pamphlets, and may think it a point of duty to call in a portion of his notes, whenever the exchange falls. But the interests of the banker, individually, are in no way concerned in the matter; the fall

* See Sir Robert Peel's Speeches on the Renewal of the Bank Charter, p. 29-31.

of the exchange is nothing to him. It is the necessary, as it is one of the most beneficial effects of our banking system, that the whole duty of providing a sufficient stock of gold for the correction of the exchanges devolves upon one single great establishment, which is or ought to be enabled to perform that office effectually, by the magnitude of its capital and the privileges which the legislature has conferred on it. The example of the United States proves conclusively, that this office can never be safely intrusted to a number of independent banking establishments, however judiciously constituted, where each is intent only on the prosecution of its own interests, and acknowledges no obligation to consult anything but its interests. You point to the system of the United States as a warning. And yet one of the very objects which you propose to effect by your bill, in so far as its objects are intelligible, is to assimilate the system of England to that of the United States, by dividing among the smaller banks the duty of providing a stock of gold to meet the turns of the exchange.

But even if it could be made compulsory on the country bankers to correct the amount of their issues from time to time by the fluctuations of the exchange, they would not thereby be relieved from the necessity of preserving the same conformity as at present between their issues and prices. It is on the state of prices that the demand for currency, whether larger or smaller, depends. And you may as well tell the bankers to issue without any regard to the demand for their notes, as to issue without regard to prices. It is not, indeed, strictly correct to say, that country bankers govern their issues by prices; the bankers are, in point of fact, nearly passive in the matter; it is the prices which govern the amount of issues.

And why should it not be so? Why should the public be deprived of the use of a safe and economical currency, of a currency founded on solid banking credit, in sufficient quantity for the transaction of its exchanges, and be driven to the substitution of personal and secondary

credit, and of all manner of insecure and clumsy expedients, when prices are high (even supposing them to have been raised by speculation, though that is by much the rarest case of any), more than when they are low? A failure of the harvest threatens the country with famine, and the price of wheat is doubled. It becomes most desirable, that the intensity of the calamity should be as much as possible mitigated and its duration limited. For this purpose, no more effectual measure presents itself, than that of sowing an additional breadth of land with wheat for the season ensuing, in order that the entire exhaustion of the surplus stock, which is usually carried over from one season to another, may not have the effect of prolonging the famine into a second year. The farmer, meanwhile, who has lost a third of his crop, finds that the remaining two-thirds have acquired a value not only sufficient to make up for the deficiency, but to yield him a profit of $33\frac{1}{3}$ per cent. over and above what his corn would have sold for, had the produce been that of an average year. He feels himself, therefore, in a position to forward the public object of extending the cultivation of wheat for the season ensuing; the expectation of further profit furnishes him with the motive, and his profits already secured with the means; but the whole of his corn may not yet have been brought to market, or a portion of it may have been sold on credit; and, to enable him to commence his operations for bringing new land into tillage, he requires an advance from his banker. The banker supplies the desired advance by an issue of his own notes in excess of his ordinary issue; and the circumstances of the time having imparted an extraordinary degree of activity to agricultural industry, these notes find local employment, and remain for a certain period in circulation.

Is it meant, then, to be asserted, that there is anything wrong in all this? that, in responding to this most "legitimate demand," for a temporary accommodation to the farmer, and for a supply of additional

circulation to the district, merely commensurate with the increased activity about to be given to production, the banker is depreciating the currency, and inflicting a positive injury on the community at large? Or is there any man living who seriously believes, that, by dint of any impediments to the free circulation of produce, which he can devise, he can compel the farmers to dispose of the produce of a scanty harvest at the same prices as the produce of a redundant harvest; or that, if he could, he would be conferring a benefit on the public? Why, I thought it had long ago been settled by common agreement among all sects of political economists, that high prices constitute the natural and only legitimate remedy by which the evils of famine are to be mitigated; that there exist no other means, by which we can ensure either economy in the consumption of the crop realised, or an enlargement of the cultivation for the ensuing season, or an abundant supply from abroad; and I own, I am rather surprised to hear a proposition started at this time of day, which seems to imply, that a rise of prices, under such circumstances, is an evil to be corrected. If such doctrines are to prevail, we may expect soon to hear of a measure for reviving the laws against forestalling and regrating: it would be but a trifling extension of the same principle. But I think, I may venture to assure these vigilant guardians of the integrity of the currency, that, do what they may, prices will still continue to govern the issues of the country bankers; that, even if the privilege of issue were to be entirely withdrawn from them, and they were restricted to the circulation of notes of the Bank of England, the case would not be in the slightest degree bettered; nay that, even if our note circulation were to be discarded altogether, and a pure metallic currency established in its place, the gold would still be found appearing and disappearing as prices might rise or fall, and the private hoards succeeding once more to the functions of the banks.

CHAPTER VII.

Currency Theory of Drains of Bullion—Of the distinction between Nominal and Real Exchange, and the Rationale of the Extrusion and Melting of the Coin of a Mixed Currency, where the Paper is Inconvertible and issued in excess—Limited Fluctuations of the Price of Gold, when the Currency is Convertible—Falls of the Exchange coincident generally with a low state of the Currency, and *vice versâ*—All Variations of the Exchange, one class excepted, depend on the state of the Balance of Foreign Payments—Of the Employment of the Precious Metals for the Adjustment of such Balances—Doctrine as to the Necessity of contracting the Circulation in order to arrest a Drain of Bullion—Its Fallacy—Operation of the Hoards in regulating the Fluctuations of a Metallic Circulation, and analogous Action of the Banks in regulating those of a Mixed Circulation—The Existence of a Drain does not necessarily imply any Diminution of the Internal Demand for Circulation—Of Drains through the Deposits.

BUT besides the social and commercial evils which are imputed to the fluctuations of a bank-note currency, the convertibility of the notes themselves, we are told, is continually endangered by those fluctuations; and it is held out as the paramount recommendation of the measure before Parliament, that it will obviate that danger in future. Indeed, there are symptoms in some of the latter debates of a disposition to recede a little from the lofty pretensions with which the bill was ushered in, and to rest its claims to approbation rather on its efficacy as a guarantee of the permanence of the monetary system established in 1819, and a security for the uninterrupted solvency of the Bank, than as a protection against the great vicissitudes of commerce, a restraint on reckless and improvident speculation, and a panacea for the revulsions, the panics, and the endless catalogue of calamities which follow in their train. Those drains of bullion

for exportation, which we have been accustomed to experience from time to time, and which, on two different occasions since the resumption of cash payments, namely in 1825 and 1839, reduced the stock of gold in the hands of the Bank to so low an ebb, as to give rise to serious alarm, lest it should be entirely exhausted, those drains are regarded by the partisans of the currency doctrine, as merely so many manifestations of the redundant issue, and consequent depreciation of the bank paper. According to their notion, the aggregate value of the currency of the realm has been reduced, by the excessive quantity of notes thrown into the market, to a level below that of the currencies of surrounding nations; the effect has been to raise the local prices of all commodities, while the prices of the same commodities in foreign countries remain unaltered; as the natural remedy for this irregular state of things, the notes are returned to the Bank for gold, and the gold is sent abroad to purchase the commodities where they are cheaper; and by this process, they say, the equilibrium of value would soon be restored, but that the Bank continually replaces the notes sent in for payment by fresh issues.

I am perfectly sensible of the importance of maintaining, under all ordinary circumstances, the convertibility of the bank-note currency inviolable; and I am quite free to admit that, to ensure that object, few sacrifices would be too great. Necessities inseparably connected with our social condition, and with our whole system of commercial economy, render the occasional exportation of the precious metals, for the purpose of adjusting foreign payments, inevitable. Those metals are not held, but in very small parcels and for very short periods, by individuals in this country as merchandise, neither are they hoarded by them as money. The only considerable stock existing here is that in the vaults of the Bank of England; and to the Bank of England accordingly every man resorts, who has occasion for

specie to send abroad. Hitherto, the store of gold kept by the Bank of England has been sufficient to answer every demand on it, but it has been barely sufficient. In several instances, and particularly in the two years above mentioned, it has been so nearly drained out, as at least to suggest the possibility that it might have been entirely drained out. The recurrence of such emergencies, even though we could be sure that they would always stop short of total exhaustion, is exceedingly to be deprecated. They rarely fail to create a degree of uneasiness and apprehension while they last, very injurious to public and private credit, and they have a tendency, in their concluding stages, to induce panics, which, if they were once to gain ground, could not always be arrested, and might very probably ensure the catastrophe which the drain for exportation would not of itself have brought about. It is very desirable certainly, that, if possible, this should be remedied; and as the resources at the disposal of the Bank have hitherto been somewhat scanty for the purpose contemplated, the most obvious course which suggests itself is to endeavour by some expedient to enlarge them. This, however, is the very reverse of what is proposed to be done by the present measure. Instead of enlarging, it proposes greatly to contract the means by which the Bank hitherto has been enabled to resist the operation of drains, or, what is the same thing, greatly to restrain their exercise, and that without providing the slightest security against the frequency or intensity of the evil. The whole scheme, in truth, is built upon assumptions which will not bear the test of examination.

The term "exchange" is used, in the language of merchants, to express the equivalent in local currency, for which a person having money due to him at some distant place, transfers his claim to another person who may have occasion to pay money at that place; and what is called the par of exchange between two countries is determined by the proportion which the purchasing

power of the money of the one country bears to that of the money of the other, such purchasing power being measured, in countries using a metallic standard, by the comparative weight and fineness of their respective coins, gold being weighed against gold, and silver against silver, and equal weights of the fine metal constituting the par. The rate of exchange rises above par, or falls below it, according as the supply of bills in the market happens to be greater or less than the demand, the fall, however, being always limited by the cost of exporting the metal, and of thus substituting a remittance in coin for a remittance by bill. This is the *real* exchange; and it follows, that, whenever this exchange falls below a certain point, the fall occasions an exportation of coin. But there may be likewise variations of the exchange, which are merely *nominal*. Were the gold sovereign of this country to be debased by an admixture of inferior metal in a proportion equal to half the weight of the coin, the effect would be, that the par of the pound sterling in exchange with France would decline from its present rate of 25f. 20c. to 12f. 60c.; and a similar result would follow, if the currency were composed of inconvertible paper, and the value of that paper were degraded by doubling its quantity. But it is evident that, in these cases, as far as the exchange is concerned, there would be no variation in essentials. The same weight of gold in this country would still command the same weight of gold or of silver in France, as it did before. There would be no actual fall of the exchange, no tendency to an efflux either of bullion or commodities, no derangement of commercial relations requiring to be rectified. The change might even be perfectly consistent with a highly favourable condition of the real exchange, and with an influx of gold from the Continent. The only result would be, that the term "sovereign" would signify a different coin from that which it had expressed heretofore. *Things* would remain the same: the only variance would be in the new application of a *name*.

This distinction between real and nominal exchange was first, I believe, brought prominently into public notice in an able pamphlet published by Mr. Blake about 1811; and has since been adopted and illustrated in detail by other writers of eminence, and in particular by Mr. M'Culloch, in his article on 'Exchange' in the Supplement to the 'Encyclopædia Britannica.' The principle appears to have escaped the attention of the Bullion Committee, notwithstanding its important bearing on the subject of their investigation; and seems, when promulgated, to have perplexed not a little some of their more ardent disciples, and to have produced one or two rather singular attempts to reconcile its obvious effect with the truth of their faith: but it is a principle, which requires only to be stated to command universal acquiescence. Yet this distinction has been very commonly lost sight of in the latter discussions upon these subjects; and we find writers daily referring the phenomena of the efflux and influx of bullion to the "depreciation" and "appreciation" of the currency, as if the inducements to export and import specie had any reference to the value of the circulation, instead of being governed, as they exclusively are, by the state of the balance of foreign payments. The truth is, that, far from having any tendency to produce an adverse exchange, or to cause an efflux of the precious metals, there are no means by which the adjustment of a balance due to foreigners can be so effectually facilitated as by a legal debasement of the circulating medium, inasmuch as the change affects equally the value of all contracts made in that currency with foreigners as well as natives, and enables the debtor to discharge his obligation with a smaller amount of specie.

It is very true, indeed, that where coin and inconvertible notes are circulating together, the least oversupply of the conventional portion of the currency, or the coincidence of any legal obstacles to the free exportation of the metals with an adverse turn of the

foreign exchange, will have the certain effect of either forcing up the coin to a premium, or, if that be forbidden by law, of causing the market price to rise above the Mint price, and the coin to be melted for sale. No person who possesses a sovereign, will pay it away in discharge of a debt of twenty shillings, when he can get twenty-five shillings in money of the same legal value by melting and selling it. The coin, under these circumstances, ceases altogether to be the standard money of the realm; it is rapidly extruded from the circulation; all prices and quotations of exchange are from thenceforth expressed in the conventional paper; and, as soon as the home market is saturated with the melted bullion, the remaining stock overflows into foreign countries, and becomes an object of traffic there, like any other commodity. But this process of exportation has clearly no connexion with or dependence on the foreign exchanges. It is not necessarily preceded by any deficiency in the supply of bills, nor by any fall of the real exchange; nor is the bullion which is sent abroad required for the liquidation of any foreign debt. The exportation may even go on in the face of a favourable exchange (though I know it has been argued to the contrary), just as the transit trade in silver, on its passage from the mining countries to the silver-consuming countries of the Continent, is continued through the medium of this country without interruption, notwithstanding the exchange may at the very time be bringing in gold from those countries. The case is simply that of a great staple in universal use, of which the consumption has been suddenly curtailed in a particular locality: the market is flooded with the redundant stock; the price falls; the article, like any other merchantable commodity similarly circumstanced, becomes then an eligible object for exportation, and the superfluity is gradually taken off by the foreign demand.

I need scarcely say, however, that none of those cir-

cumstances, which, in the case of a mixed currency of coin and inconvertible paper, contribute thus to detach the coin from the paper, and cause it to be melted and sent abroad, can have the slightest operation in the case of a circulation of coin and convertible notes. It is self-evident, that bank-notes, payable at all times in coin of a definite weight and quality, can never sensibly fall in value below the coin into which they are convertible; and it is at least equally apparent, that the market-price of any metal which constitutes the material of a metallic currency, whether circulating alone or in conjunction with a currency of convertible notes, can never rise in any sensible proportion above its Mint value, so as to create an inducement for melting it again into bullion, provided the entire coinage be of one uniform quality, and that the Mint is open for the reception of all standard bullion tendered to it for coinage, and delivers in return an equal weight of coin of the like purity.

So circumscribed, indeed, is the range of fluctuation assigned to the prices of gold and silver by the operation of the various systems on which the coinages of different nations, in the present state of the world, are administered, that, except in mining countries, and, to a more limited extent, in countries where one only of the precious metals is used as money, it is difficult to imagine the existence of any motive, apart from the variations of the real exchange, sufficient to occasion their transmission from country to country at all; and in the particular instance of this country, where the fluctuations of the price of gold, as I have said, are limited to an upward range of one-sixth per cent., and a downward range of one-half per cent., it is clear, that these fluctuations can never afford any measure or criterion of the extent or intensity of the variations of the exchange. If there be any standard gold bullion for sale in our market when

an effective demand arises for gold to send abroad, an advance of the price of that bullion to the extreme elevation of 3*l.* 18*s.** per ounce must be the inevitable result of such demand; and this will be a sign or indication, and nothing more, that the exchange is below par, and bullion going out; while, on the other hand, when the price falls to 3*l.* 17*s.* 9*d.* (the purchasing rate of the Bank), it shows that the exchange is above par, and bullion coming in. The variation of the exchange, again, limited though it be by the facility of exporting gold, has, since the resumption of cash payments, assumed a range equal to nearly three per cent. in our bill transactions with Paris, while in those with Ham-
burgh (where a greater latitude is given to fluctuation, in consequence of there being no local coinage there of gold), the range is little short of six per cent. The trivial oscillations of the market price of the standard metal, thus limited to a scale of one-third per cent. in the whole, are continually presenting themselves as an effect, and never as a cause, of these larger variations of the exchange. And it is a singular anomaly in the economy of the exchanges, and one particularly deserving of remark, that not only is there never any direct profit to be realized on the transit of gold between two countries equally employing gold as a circulating medium, but that the course of transit is always *from* the country, where for the moment the metal is *dearest*, to the country where it is *cheapest*,—a rise of the market price of the metal to its highest limit in the home

* *Note to Second Edition.*—I am aware there is an error in stating 3*l.* 18*s.* as a price which gold bullion can attain under actually existing circumstances, now that so large a portion of our gold coin has been renewed. 3*l.* 18*s.* per ounce was the full value of standard gold, as measured in our deteriorated coin previous to the late recoinage. As the principle under illustration, however, is not altered by the change of circumstances in respect to the condition of the coin, and will come again into operation at a future period, when the coin shall become again injured by wear, I have not thought it necessary to make any alteration in the text.

market, and a fall of the premium in the foreign market, being the certain results of that tendency to an efflux of gold which follows a depression of the exchanges, and both effects immediately ceasing on the cessation of the demand for exportation. From all this it is obvious, that the bullion-merchant, under present circumstances, would never have any inducement to export gold at all, but for the profit he realizes by the high exchange at which he is enabled to purchase bills for the return of his funds, that the rise of price is in detraction from that profit, and that gold therefore cannot be sent abroad for the correction of an adverse exchange, until the rate of exchange shall have fallen to such a point as shall indemnify the exporter as well for the difference of price as for the cost of transmission.

I know, it will be answered by the advocates of the currency doctrines, that these observations as to nominal and real exchange have no application to their argument, and that the depreciation of which they speak, is not a depreciation of the metallic par of the currency as compared with the pars of the currencies of surrounding countries, but merely a diminution of the comparative purchasing power of the local circulation, consequent on the undue augmentation of its quantity,—a diminution, which can occasion no variation in the nominal exchange, so long as the weight and purity of the respective coinages are preserved unimpaired, and the coin of either country is permitted to pass freely into the other. And I am quite aware, that this is the correct representation of their meaning; though, from the loose and indiscriminate manner in which they permit themselves to apply the terms “depreciation” and “appreciation” to every description of mixed currency—at one time with reference to the mutual relations of value between the currencies themselves, and at another with reference to their relations of value as compared with commodities—one might sometimes be tempted to suppose, that they have either not adverted to the distinction at all, or are

unwilling that others should advert to it. But, however this may be, there can be no doubt, that the imaginary fluctuations of value to which these reasoners are in the habit of attributing the drains of gold incident to our existing system of note currency, have become intimately associated in the minds of many with the nominal variations of inconvertible paper, and the extrusion of the circulating coin by which those variations are accompanied, nor that the doctrines in question have derived some countenance in the eyes of the world from this supposed analogy. I have thought it of importance, therefore, to place each respective case on its true footing, and to show that there is nothing in common between the two classes of phenomena.

Were such a thing as a redundant issue of convertible notes possible, the over-issue could only be supposed to affect the course of bullion through its action on prices, and through prices on the balance of foreign payments; precisely as in the case of a disturbance of the commercial equilibrium, originating solely in commercial causes, and wholly independent of the state of the currency. But I rely with confidence on the sufficiency of the reasons which I have stated, for rejecting altogether the supposition, that a circulation of convertible notes can exist for any continuance in such a state of redundancy as to raise prices. And those reasons are made irresistible by the discovery, for which we are again indebted chiefly to the researches of Mr. Tooke, that, with only one or two exceptions, and those admitting of satisfactory explanation, every remarkable fall of the exchange, followed by a drain of gold, that has occurred during the last half-century, has been coincident throughout with a comparatively *low* state of the circulating medium, and *vice versâ*. On no occasion was this proposition more strikingly exemplified, than during the period immediately preceding the suspension of cash payments in 1797, when for two years together a system of the most determined contraction was carried on by the Directors

of the Bank of England with unrelenting perseverance, reducing the circulation from 16,017,510*l.* on the 28th of February, 1795, to 8,640,250*l.* on the 25th of February, 1797, without arresting in the least apparent degree the drain of gold which was then in progress for restoring the exchange. Similar instances may be quoted in connexion with almost every remarkable change in the course of bullion during the continuance of the Bank Restriction Act: and the restoration of the exchange to its bullion par from a depression of full thirty per cent. was accomplished in 1816, after various remarkable vicissitudes, in the face of an enlargement of the issues of the Bank of England to an extent varying from three to six millions.* And since the repeal of the Suspension Act in 1819, we have had a succession of the same phenomena, namely, a high exchange and an influx of bullion in concurrence with a full circulation, and a depressed state of the exchange and drain of bullion coinciding with a contracted circulation, in a variety of instances, in 1825, 1828-9, 1830-32, throughout the eventful interval from 1833 to 1839, and more lately in 1842-3; in nearly every remarkable contingency in fact that arose, with the exception of the crisis of 1839,

* I am aware, that an attempt has been made by the eminent author of the article on Exchange in the Supplement to the 'Encyclopedia Britannica,' to account for the whole of this extraordinary revolution in the exchanges, which occurred between 1814 and 1816, from the contraction of the country circulation consequent on the extensive failures of the country banks; but the attempt is by no means a successful one. My space will not permit me to engage in the detailed discussion of so complicated a case. But it may be remarked, among other circumstances scarcely reconcileable with Mr. M'Culloch's argument, that the first great rally of the exchanges occurred in the months of June, July, and August, 1814, before the failures of the country banks had even commenced. It should be remembered too, that only the *nominal* exchange could have been affected by such a restoration of the value of the paper as Mr. M'Culloch supposes; and it seems strange, therefore, that he should have assigned such a circumstance as the cause of a movement which brought in bullion to a vast amount.

when, owing probably to the peculiar coincidence of a thriving trade, an active condition of industry and a high range of prices with a failure of the corn harvest, the Bank of England certainly lost upwards of three millions of its bullion, at the same time that there was an advance to the extent of 600,000*l.* in the amount of its circulation.*

* *Note to the Second Edition.*—I find the correctness of these numerical statements in the text called in question by a writer, who has honoured this treatise with a criticism of some length, in the *Morning Chronicle* of the 20th of August. I am indebted to the writer in question for the courteous tone and general candour of his strictures, and have no disposition to animadvert upon them in a different spirit; nor indeed, but for this charge of misstatement, should I have thought it necessary to notice them at all. But this is a charge, which I feel myself called upon promptly to rebut. And I must be permitted at once to say, that, if there has been any misstatement in the case, it has not been on my part. The writer in the *Chronicle* has been pleased to represent me as asserting, “that the great panics which have happened since the repeal of the Suspension Act in 1819, have been attended with a contracted circulation and a low state of the exchange, with the exception of the crisis of 1839, when,” he says, “I own that the Bank of England lost upwards of three millions of its bullion, at the same time that there was an advance to the extent of 600,000*l.* in the amount of its circulation.” In opposition to this statement, he goes on to say, it has been proved by Mr. Jones Loyd, “that three out of the four great panics and specie drains which have happened since 1819 were concurrent with an *increase* of the general circulation of the country.” The writer then proceeds to set forth the following tabular statement of the fluctuations in the bullion and circulation of the Bank of England during 1839, which, he observes, show a very different result from the statement given by me, viz. :—

	Circulation.	Bullion.
“ January, 1839 . . .	£17,529,000	£9,048,000
February, „ . . .	18,948,000	7,364,000
March, „ . . .	18,119,000	6,662,000
April, „ . . .	18,111,000	5,737,000
May, „ . . .	18,325,000	4,294,000
June, „ . . .	17,852,000	3,946,000
July, „ . . .	17,611,000	3,676,000
August, „ . . .	18,441,000	2,471,000
September, „ . . .	17,896,000	2,406,000.”

“The above figures,” the writer observes, “in place of a reduction of three millions of bullion, show a rapid monthly decrease under the

It is not, in truth, to any positive or invariable connexion which can be affirmed to subsist between a full currency and a favourable state of the exchange, or to any reciprocal action of one on the other in the way of

operation of a constant drain, amounting in all to 6,643,000*l.*," or more than double the amount which I had allowed; while, in the circulation, there was an increase of 1,419,000*l.* in February, against a decline of 1,600,000*l.* in the bullion, and between January and August the increase in the circulation was 912,000*l.* against a decrease in the bullion of 6,577,000*l.*

Now, in the first place, I really cannot consent to be held up as the author of so inept a proposition and one so little relevant to the matter in hand, as "that the great panics which have happened since 1819, with the exception of the crisis of 1839, have been attended with a contracted circulation and a low state of the exchange." These words are not mine. I have not said a syllable about "*panics*;" there was no panic in 1839 at all; and whether panics, when they have occurred, have usually been coincident with a contracted or an expanded circulation, a low or a high state of the exchange, was not the question. My proposition, as will be seen by reference to the text, was simply this, that, in nearly every remarkable contingency since 1819, with the exception only of the crisis of 1839, a high exchange and an influx of bullion have coincided with a full circulation, and a depressed state of the exchange and drain of bullion with a contracted circulation. These coincidences I have regarded as merely a repetition of the same phenomena, which signalized nearly every remarkable change in the course of bullion during the twenty-five years which preceded 1819. And the exception in 1839 I have endeavoured to account for, upon grounds of whose cogency I must leave my readers to judge. By the proposition itself I entirely abide.

Next, as to the tabular statement of the fluctuations of the bullion and circulation in 1839, which the Chronicle adduces in contradiction of my estimate, I must beg leave to observe, that, as the writer professes to be merely the interpreter of Mr. Jones Loyd's inferences and opinions, he would have done wisely to have confined himself to those specifications of fact, which Mr. Loyd himself has adopted as the grounds of his argument. All Mr. Loyd's conclusions relative to the fluctuations of the bullion and circulation in 1839 are deduced from a comparison of the *monthly averages*, which he has extracted from the Bank returns, and reduced into a table exhibiting under the head of each month respectively the averages for that and the two preceding months. The actual monthly averages themselves, as set forth in an Appendix, No. 34, to the Report of the Commons' Committee of 1840, would probably have answered the purpose equally well: but it ap-

cause and effect, that we are to ascribe a concurrence of phenomena so utterly irreconcilable as this is, with the theory which regards the several variations of the ex-

appears to me, that either statement may enable the inquirer to form a sufficiently fair judgment on the evolutions of the bank currency during the year in question. This, however, was not enough for the writer in the *Chronicle*. He has thought fit to resort for his data to the *weekly* returns of the Bank of England; and, instead of classing those into averages, has framed his table from the returns of the first week of each month, omitting the returns for the other weeks altogether. Instead, therefore, of exhibiting anything like a true picture of the real expansions and contractions of the note circulation, his results are constantly distorted and falsified by the prominent display of every violent alternation of issue incident to the payment of the quarterly dividends; and the millions of paper, which at those periods are sent forth merely to perform a single transaction, and then revert to the bank, those millions are obtruded on the attention as if they were effective additions to the circulating medium, issued upon demand, and designed for use. Hence it is, that his table shows an increase of the circulation in February, as compared with the returns for January, to the extent of 1,419,000*l.*, though the real increase which appears from a comparison of the average issues of the two months was only 3050*l.*; and hence his return for August shows an augmentation of 912,000*l.* as compared with that for January, although by August there was in reality a reduction of more than half a million in the issues of the Bank of England, and if the inquiry were to be extended to the aggregate bank issues of the whole kingdom, there would be exhibited a reduction within the same period of nearly three millions and a half. These several variations will be made more apparent, if my readers will take the trouble of comparing the particulars of the following *monthly* returns of the circulation and bullion, extracted from the Parliamentary statement, with the corresponding items in the above document from the *Morning Chronicle*, viz. :—

			Circulation.	Bullion.
January, 1839	.	.	£18,554,800	£8,318,800
February	„	.	18,551,750	7,001,750
March	„	.	17,813,750	6,414,500
April	„	.	18,616,400	4,927,600
May	„	.	18,111,000	4,064,250
June	„	.	17,446,750	3,895,500
July	„	.	18,407,800	3,118,800
August	„	.	18,014,500	2,444,000
September	„	.	17,171,500	2,519,750

Now, it will be evident, from the above table, that the increase of the circulation to which I have alluded in the text as concurrent on

change as merely so many manifestations of an alteration in the quantity and value of the currency. The case is nothing more than this, that the same circumstances

this occasion with a drain of gold, and as constituting in that respect an exception to the usual course of monetary affairs, had attained its acme in April. The average issues in that month reached the sum of 18,616,400*l.*, and never afterwards came within 200,000*l.* of that amount. Between January and April, the bullion was in a progressive course of diminution; and by April, the reduction, as I have stated, exceeded three millions, while the circulation was all the while on the increase. But there the exception ceased. From that time the amount of the issues began to decline; and the drain, which did not reach its termination till August, was no longer attended by an increasing circulation of notes, but coincided, as, I maintain, similar phenomena have almost universally been found to do, with a decreasing issue and contracted circulation. The extent to which the exportation of bullion was carried after the month of April, though no doubt an important incident in itself, had no relevancy whatever to the question in hand, and therefore did not enter into my statement.

I have allowed that a sum of 600,000*l.* was added to the Bank circulation between January and April 1839, at the same time that upwards of three millions of coin were withdrawn from the Bank for exportation. But, had I been at all anxious to underrate the importance of this exception to the general principle, I might, without much danger of rebuke, have taken my figures from the monthly averages, which would have reduced my estimate of the redundant issues from 600,000*l.* to 61,600*l.*, a sum utterly inconsequential. But 600,000*l.* having been the excess of issue admitted by Mr. Horsley Palmer, in his examination by Mr. Grote; (See Report of 1840, p. 139.) and that result having been obtained from a comparison of the returns of the circulation for January and April taken immediately previous to the issue of the dividends in each month respectively, no fair objection could be taken to the estimate, nor did I think myself at liberty to depart from it,—though it may seem somewhat singular, that the returns taken before the dividends, which are generally the lowest of any, should have exhibited a difference so much larger than that which appeared from a comparison of the average issues for the same months. In plain truth, however, the point was not worth a cavil. Look at the facts of the case under what point of view you will, it is really next to impossible to listen with any decent share of gravity or patience to an argument, which treats the circumstances of the drain of 1839 as mere phenomena of the currency. Setting aside the unquestioned notoriety of the true cause of the drain, the certainty that the bullion went as capital to pay for a vast supply of foreign corn, and that its movements had about as little to do with the changes of the credit circulation as

which conduce to a rise of the exchanges and an influx of gold, denote also generally the existence of an active state of internal industry, a high scale of production and

with the changes of the moon, let me ask any person in the least familiar with the history of the issues of the Bank of England, and who has not altogether surrendered his intellects to the fallacies of the currency theory,—let me ask any such person to say, in what item of the returns of 1839 is to be found the most distant indication of a redundant state of the note currency? There was an increase, indeed, a trivial increase of the circulation, as we have seen, between January and April. But take even the return for April, when the amount of notes outstanding was at the highest, will any man take upon him to affirm that an issue of 18,616,400*l.* (and of that sum a considerable portion, too, composed of notes distributed by the branches,) was an excessive issue,—an issue necessarily implying a depreciation of the paper sufficient to disturb the exchanges? or whether, upon any fair comparison with the state of the bank-note circulation at antecedent and subsequent periods, it did not, on the contrary, exhibit a perfectly moderate, or, I should say, rather a low condition of the currency? The writer in the Chronicle appears to think he demonstrates, that the currency in 1839 did not fluctuate as a metallic currency would have fluctuated, when he merely recites with some exaggeration the fact, that the issues of the Bank in that year were not contracted in a ratio corresponding with the efflux of the bullion; forgetting that, so far is this fact from being in dispute, that it is on its admitted truth that the only important question in controversy arises, namely, whether there would have been any greater contraction of the circulation in consequence of the drain, had the currency been metallic, or whether the bullion for exportation must not in that case have been furnished from the hoards.

With this question the writer does not attempt to cope. But the Chronicle does not confine its charge of misrepresentation to my statement respecting the fluctuations of 1839. It further affirms, that it has been *proved* by Mr. Jones Loyd, “that three out of the four great *panics and specie drains*, which have happened since 1819, were *concurrent* with an *increase* of the general circulation of the country.” With great submission, Mr. Jones Loyd has *proved* nothing of the kind. Mr. Jones Loyd, in the cases in question, has thought it pertinent to his argument, to trace back the fluctuations of the circulation and bullion for one, two, or more years antecedent to the drain, and has shown, doubtless, sundry and desultory variations in the amount both of the metropolitan and country issues, during those intervals, not always corresponding, as, according to his theory, they ought to have done, with the movements of the bullion. Mr. Loyd always appears to regard the fluctuations of the Bank circulating paper in the light of results produced and regulated by the discretionary power of

consumption, and every condition requisite to an enhanced employment and demand for money. On the other hand, when a fall of the foreign exchange and a

the Directors of the Bank, and never as the spontaneous results of external circumstances: in the exercise of their controlling power, he requires, that the Directors should conform strictly to a principle the very reverse of that which has uniformly governed the fluctuations of currencies since the first invention of money: he insists that, whenever the standard metal is wanted for exportation, the demand should be fulfilled, not out of the stock in hoard, but out of the stock in circulation: and he must be admitted certainly to have proved, that the Directors of the Bank of England have not regulated their issues in conformity with this fancy. But he has *not* proved, that the drains in question, after they had once fairly set in, were concurrent with an increase in the circulation,—much less, that they were concurrent with a *full* circulation. The state of facts is directly to the contrary. The great crisis of 1825 was immediately preceded by a gradual but steady decline of the Bank's issues, which commenced in February of that year, and proceeded *pari passu* with the efflux of the gold till the arrival of the panic in autumn. Between July 1830 and January 1832, while the Bank lost nearly seven millions of gold, it is not denied, that the issues were all the while maintained at a moderate level, nor that the eventual revulsion coincided with a contraction of circulating paper to the extent of some two and a half millions. And even in the drain of 1836-37, though the decrease of circulation which preceded the termination of the efflux in February of the latter year, may have been less considerable than in some other instances, the coincidence of rather a low state of the circulation with the whole drain was equally decided.

Besides these attempts to impugn the accuracy of statements, not after all very indispensably vital to my general argument, I discover nothing in the article in the Chronicle that seems to require an answer. It dilates, somewhat superfluously and late, on the sufferings to which the public has from time to time been exposed from the insolvency of banks of issue, and the imperative duty thereby imposed on the government to adopt measures for the public protection; it assumes as an axiom, which “*all men must allow*, that so long as bankers' notes are payable in gold, they should not be increased at the very time when the commodity in which they are legally redeemable is diminished;” and it assures us, that a “*great preponderance of the opinions of the ablest London and country bankers, capitalists, and monied men,*” given in the reports of the several Committees of 1832, 1840, and 1842, go to *show*, that the promissory notes both of country banks and of the Bank of England “*have been frequently redundant.*” But with this assurance the author contents himself; abstaining generally with

drain of gold come in the train of a period of commercial excitement and speculation, their advent is commonly the signal of a collapse already commenced, an indication of overstocked markets, of a cessation of the foreign demand for our productions, of delayed returns, and, as the necessary sequel of all these, of commercial discredit, manufactories shut up, artisans starving, and a general stagnation of industry and enterprise. And under such circumstances, how should it be matter of surprise to any one, that a smaller amount of notes should suffice for the transaction of the little business which is going on? I look upon a low state of the currency, in fine, and an adverse exchange, as co-ordinate phenomena, and nothing further,—phenomena resulting from the operation of certain common causes, and those causes liable to be modified by circumstances, but, as I believe and have already intimated, altogether independent of the action of drains in bringing notes into the Bank for gold. Such action is the immediate consequence of a demand for gold as an exportable commodity, and not of any abatement of the demand for circulation. And so long as the issues of the Bank of England shall be administered upon any system that will be long tolerated

the most praiseworthy forbearance, through a disquisition of more than one and a half columns, from all closer collision upon that or any other point of importance in the case. In one instance, indeed, and in one only, he is incautious enough to disclose a specimen of his weapons in reserve, by condescending to argue, that “the numerous insolvencies of issuing banks are in themselves *incontestible evidence of the over-issue of promissory notes!*” And, in another instance, he seems rather to betray some distrust of the virtue of the government panacea, when he urges as a *defence* of the limitation of the issue of notes upon securities, that the precaution will be sure to be nullified by recourse to other sources of credit! Though not himself disposed, however, to embark further in the controversy, the writer expresses his confidence that “the framers and supporters of the Bank Charter Act are quite as ready to join issue on the statistical facts, on which they have hitherto relied, as Mr. Fullarton can be;” and thus gives us to understand that the conflict is not yet ended. We must endeavour, therefore, to wait its promised renewal with due equanimity.

or tolerable, I hold that the demand constitutes the self-regulating principle, by which alone the amount of the bank-note circulation must be governed. With respect, again, to those examples of eager competition for the possession of bank-notes, which characterize seasons of panic, and which may sometimes, as at the close of 1825, lead to a sudden, though only temporary, enlargement of the issues, even while the efflux of bullion is still going on; these, I apprehend, are not to be regarded as among the natural or necessary concomitants of a low exchange; the demand in such cases is not for circulation, but for hoarding, a demand on the part of alarmed bankers and capitalists, which arises generally in the last act of the crisis, after a long continuation of the drain, and is the precursor of its termination.

If, then, these bugbears of over-issue and depreciation have no real existence—if it has been demonstrated, as I trust it has, that the banker's power of issue is strictly limited by the public demand for notes—that the individuals composing the public, who have an equivalent in stock or credit to offer in return, can have no imaginable motive for desiring to possess themselves of a larger proportion of those notes than they absolutely require for use—that a currency not forced into circulation by authority, but limited by the demand for use, can never operate upon prices by any excess of quantity—and that it never, therefore, can become depreciated or suffer a diminution of its purchasing power, as compared with the currencies of neighbouring countries—and that, without such depreciation, there will be no equilibrium of value disturbed, nor any necessity for exporting the metallic portion of the circulation for the purpose of restoring it: if all this be so, it is clear, that the entire scheme of the currency party for correcting the eccentric movements of the bullion by the regulation of the issues, is at an end. The ground is cut from under it.

This, in fact, is not a question of currency, but of capital. Setting out of account for the present that

peculiar class of cases in which the natural current of bullion may be diverted by a special demand arising in some particular country for a large supply of the precious metals in kind, all those various causes which, in the existing condition of monetary affairs, are capable of influencing the exchange and directing the stream of bullion from one country to another, resolve themselves under a single head, namely, the state of the balance of foreign payments, and the continually recurring necessity of transferring *capital* from one country to another to discharge it. If there has been a failure of the crops, and, to relieve the necessities of the population, three millions of quarters of wheat are to be imported from abroad, so much of the capital of the nation will have to be sacrificed for that object. Whether that capital is transmitted in merchandise or in specie, is a point which in no way affects the nature of the transaction; the corn can only be obtained in exchange for an equivalent, and that equivalent must in one shape or other come out of the wealth of the country. The loss is irretrievable; it is the penalty inseparable from a great physical calamity, which must be submitted to; and if any portion of the penalty shall have been paid in gold, that gold can only be got back again by a second exportation of capital, to be created by fresh exertions of industry and given in exchange for it. The case is precisely the same, where the adverse state of the exchange is occasioned by a heavy war expenditure in a foreign country. In that case, as in the former, there must always be a positive abstraction of capital; and, in order to redeem the gold, a new equivalent in capital must be provided, either by abstinence from consumption or by increased energy of production. Where, on the other hand, the adverse balance is created in the ordinary course of mercantile exchange, where the object to be accomplished by the transmission of capital in the shape of merchandise or bullion is to place it out to greater advantage at interest, as in the case of remittances for the purchase of foreign

state securities, or where it is merely sent in return for a surplus quantity of foreign goods imported, the transaction eventually may turn out profitable or unprofitable, but it implies no positive sacrifice of capital in its origin, like remittances for repairing the deficiency of a harvest, or for prosecuting the operations of a foreign war. There is no void to be filled. The gold is sent abroad in commutation for an available equivalent, and the same equivalent, or some other obtained in exchange for it, will bring back the gold again, without the necessity of creating any new capital for its redemption. But in either case the operation is essentially an operation in capital, and only affects the currency incidentally.

The balance of foreign payments is liable to vary in all states of the currency alike, whether it be a metallic, a conventional, or a mixed currency; and those variations are wholly unconnected with any fluctuation in the amount of circulating money, and do not *necessarily* demand any transmission of bullion for their correction. Gold is preferred for that purpose only in those cases where it is likely to effect the payment more conveniently, promptly, or profitably, than any other description of stock or capital. In poor countries, and most of the territories to which we are accustomed to look for supplies of grain in time of dearth come very literally under that denomination,—in poor countries, the capacity for consuming foreign articles is exceedingly limited; new wants and new tastes are not to be created in a day; and it is idle to suppose that, in such countries, even cheapness will, on every sudden emergency, ensure a market for such commodities as you can spare to send. The debt must be paid perhaps on a certain day; and, if a bill for the amount either cannot be procured at all or only at a premium which is held to be extravagant, it is natural to suppose, that, other circumstances being equal, the indebted party will choose to make his remittance in an article like gold or silver, which can always be conveyed to the spot where it is wanted with precision and celerity,

and may be counted upon to realize on its arrival nearly the exact sum required to be provided, rather than incur the hazard of sending it in tea, coffee, sugar, or indigo. Gold and silver possess an infinite advantage over all other descriptions of merchandise for such occasions, from the circumstance of their being universally in use as money. It is not in tea, coffee, sugar, or indigo, that debts, whether foreign or domestic, are usually contracted to be paid, but in coin; and a remittance, therefore, either in the identical coin designated, or in bullion which can be promptly turned into that coin through the Mint or market of the country to which it is sent, must always afford to the remitter the most certain, immediate, and accurate means of effecting his object, without risk of disappointment from the failure of demand or fluctuation of price.

The late Mr. Ricardo appears to have entertained very peculiar and extreme opinions, as to the limited extent of the offices performed by gold and silver in the adjustment of foreign balances. Mr. Ricardo had passed his life amid the controversies which grew out of the Restriction Act, and had accustomed himself so long to consider all the great fluctuations of exchange and of the price of gold as results of the excessive issues of the Bank of England, that at one time he seemed scarcely willing to allow, that such a thing could exist as an adverse balance of commercial payments. It was the doctrine of the day, that, whenever a debt is contracted to a foreign country, in consequence of the goods imported from thence exceeding the value of the exports sent in return, the demand for remittances to pay the balance must always create such a competition for bills that the premium of exchange would indemnify the exporting merchant for deficiency of price, and enable him to renew and continue his exports with advantage to what would otherwise have been a losing market, until the balance should be eventually adjusted by the transmission of commodities. It was not universally perceived, that this

doctrine could have relevance only to those larger fluctuations of exchange which are incident to currencies of inconvertible paper, where there may be no bullion procurable to substitute for the bills and arrest the decline of the exchange. And so slight an account did Mr. Ricardo set on the functions performed by gold in such adjustments, as to have even anticipated, that drains for exportation would cease altogether so soon as cash payments should be resumed and the currency restored to its metallic level; and that, if due precautions were only taken to guard against the effect of runs on the Bank from internal panic, a reserve of about three millions "would be an ample provision for a circulation of twenty-four millions of paper."*

Nor does it seem very surprising, when one looks at all the circumstances under which these opinions were formed, that even Mr. Ricardo's masterly and vigorous understanding should have been to some extent misled by the false aspect under which they presented themselves. The truth is, that, after the suspension of cash payments and the general substitution of paper for gold, which was accomplished about 1800, the employment of specie for the adjustment of balances merely commercial fell of necessity very much into desuetude, and so continued till after the termination of the war. From the moment that gold ceased to be our standard, it lost its peculiar fitness for the office of a regulator of the exchanges. There no longer existed any great depôt of the metal, where it could be procured at all times in large quantities, nor did it retain any certain monetary value either in this country or at the few accessible ports of the Continent. Besides, our merchants really did not want it; for, owing to the unsettled state of continental Europe, and the increased consumption there of imported manufactures, in consequence of the interruption given to in-

* See Mr. Ricardo's Evidence before the Lords' Committee of 1819 on the Bank of England; Report, p. 186.

dustry and to all domestic improvement by the incessant movements of invading armies, together with the complete monopoly of the colonial trade which England had obtained through her naval superiority, the export of commodities from Great Britain to the Continent continued greatly to exceed her imports from thence, so long as the intercourse remained open; and, after that intercourse was interrupted by the Berlin and Milan decrees, the transactions of trade became much too insignificant to affect exchanges in one way or the other. It was the foreign military expenditure and the subsidies, and not the necessities of commerce, that contributed in so extraordinary a manner to derange the exchanges and enhance the price of bullion in the latter years of the war. The distinguished economists of that period, therefore, had few or no real opportunities of practically estimating the range of which foreign commercial balances are susceptible; and looking, as they had been accustomed to do, at all the phenomena of the time connected with the fluctuations of exchange and bullion through a single and not very transparent medium, they may be excused for having somewhat undervalued the agency of the precious metals in these international adjustments, and for having failed to foresee, that the restoration of a free system of commercial intercourse all over the world, the re-establishment of the gold standard in this country, and the extension of the benefits of a metallic currency to almost every civilised people, instead of extinguishing or diminishing the inducements which lead to the transmission of specie from one country to another, would only have the effect of removing the impediments which, during the operation of the Restriction Act, had so trammelled and repressed the employment of bullion as a medium of exchange with foreign nations, and that the use of bullion for the adjustment of foreign balances would in consequence be very much extended. Had Mr. Ricardo lived to witness the drains of 1825 and 1839, he would no doubt have seen reason to alter his

views. At neither of these epochs, were there any great coinages in progress on the Continent, any armies in the field, or any one circumstance in existence which could be supposed to cause or indicate an increase of the demand for gold as an article of consumption in foreign countries; the exportation on each occasion was purely for the discharge of a foreign debt, a debt contracted in the one case in prosecution of vast mercantile speculations, and in the other from the necessity of importing a very large supply of foreign corn. Our experience of these two periods has now, as I conceive, established beyond all question the conclusion, that a sum in specie, of which it would be very difficult to predicate the possible amount, but undoubtedly exceeding seven millions sterling, may on certain occasions be required to make good the difference between the value of the imports and that of the exports of this country. And it may be considered equally established by the sequel in each case, that the specie, after having performed its office, will, on the next favourable turn of the balance of payments, flow back again to the spot from whence it came, with equal rapidity and in not inferior quantity.

So long as the convertibility of the paper is complete, there can be no fall of the exchange which will compensate the merchant for sending his goods to a market where there is no demand for them, or which should induce him to attempt the substitution of a payment in goods for a payment in specie; for the fall of the exchange is limited under such circumstances by the cost of exporting bullion, so that at the very point where the inducement to transmit the specie commences, the fall is *ipso facto* stopped. It is the doctrine of the currency party, indeed, that a drain of specie, if not interfered with, will always cure itself,—that the Bank has only to refrain from re-issuing the notes which are sent to it for gold, and that the gradual contraction of the circulation thus produced will so lower the prices of commodities as to give a certain stimulus to their exportation,

and so supersede the necessity of continuing the exportation of coin. And they insist upon it, that, by adopting this course of action from the first commencement of the drain, the value of the currency will be restored, and the progress of the drain effectually arrested, without exposing the public to any of those violent shocks which invariably attend the ultimate revulsion, when the process of contraction is too long delayed. But this doctrine is built upon two fallacies: first, that prices are governed by the expansions and contractions of the bank-note circulation; and, secondly, that a moderate reduction of prices is all that is necessary to create a market for your commodities in foreign countries. But the contraction which affects prices is not the contraction of the issues, but that of the accommodations. And to accomplish your object, even through the contraction of the accommodations, it is a necessary condition that some degree of commercial difficulty and a low state of private credit, rendering the community more than usually dependant on the support of the Bank of England, should be concurrent with the commencement of the drain, which by no means always happens. The existence of this condition, however, being assumed, you might certainly, by withdrawing the usual facility of discount at the commencement of every drain, and in that manner contracting at once the supply of currency and of capital, succeed in spreading discredit, and forcing the holders of goods to throw them on the market, and so effect a reduction of the prices of goods through the redundancy of their quantity.

There is at least one object therefore, as it seems to me, which would be effectually accomplished by acting on this system. It would be perfectly calculated, I think, to ensure, that no derangement of the exchanges, or none at least subsisting in coincidence with anything like pressure on the money market, should ever be permitted to pass off, without one of those crises hitherto fortunately of rare occurrence, but

of which the results, when they have occurred, have been so extensive and deplorable. Nor does it at all follow, that the crisis would be lighter, because more early and certain. It will be found, I believe, that, in almost every instance of a drain of bullion, the drain does not commence, until after a considerable foreign debt has been already contracted, and all available means of discharging it through the ordinary course of traffic have been exhausted. Though there may be a less amount of bullion therefore to be recovered, there may be a much larger foreign balance to be adjusted, than where the crisis is postponed till a later period of the drain; and, until the foreign debt be finally extinguished, either the crisis must be prolonged, or the drain will assuredly return. But any compulsory reduction of prices, even if it could be accomplished without a crisis, is no light evil of itself, and implies an extent of sacrifice and a violence of interference with the distribution of property, of which the consequences, I fear, are very imperfectly appreciated, but which scarcely anything short of an overpowering necessity would justify or compensate. Mr. Hubbard, in the course of some pertinent remarks on this branch of the subject, estimates the transfer of property that would be occasioned by a general depreciation of the products of the United Kingdom for a year to the extent of 5 per cent. (and, according to the currency theory, a contraction of the issues ought to affect every article alike), at twenty-five millions sterling.*

But, even if it were an indisputable truth, that the prices of commodities are entirely regulated by the quantity of the circulating medium, it would not at all follow, that drains of bullion for exportation exercise any influence on prices. Such drains universally operate,

* See 'The Currency and the Country,' p. 51. By a singular fatality, Mr. Hubbard's argument is generally strongest, when most at variance with the conclusion which it seems to be the main object of his pamphlet to establish.

not on the currency in circulation, but on the currency in reserve,—on the hoards. And this brings me to the main issue between the partisans of the currency doctrine and myself,—the question, as to which plan for the administration of the Bank issues, when under the action of a drain, is the most in conformity with the laws which govern the fluctuations of a purely metallic currency. Mr. Jones Loyd and his school require, that, under such circumstances, the note circulation should be made to fluctuate as a metallic circulation would have fluctuated; but do not seem to have taken the trouble of asking themselves, or at all events do not inform us, how a metallic circulation would have fluctuated. It will not, I presume, be denied, that, if this country were to discard altogether her paper circulation and resort to a currency of the metals, she would still continue just as liable as before to occasional deficiencies of her harvests, that her possible scale of expenditure in distant wars would be nothing diminished, and that the same difficulty of procuring productive investments for capital, under which we are suffering at the present time, might still occasionally chance to recur, and tempt men to embark their money in foreign loans or to waste it in idle speculative purchases; that the same causes, in fine, which at present give rise from time to time to an adverse balance of payments, and an efflux of the precious metals, would still remain in the same force and activity. As little, I apprehend, can it be doubted, that the vast wealth of this country would enable her with more facility than any other to prepare herself for such contingencies, nor that the necessity of providing to meet them would in time call forth the means.

But what would be the requisite preparation? One might imagine, from the manner in which these gentlemen treat the question, that they supposed the gold which is drained off for exportation from a country using a currency exclusively metallic, to be collected by dribblets at the fairs and markets, or from the tills

of the grocers and mercers. They never even allude to the existence of such a thing as a great *hoard* of the metals, though upon the action of the hoards depends the whole economy of international payments between specie-circulating communities, while any operation of the money collected in hoards upon prices must, even according to the currency hypothesis, be wholly impossible. We know from experience, as I have already observed, what enormous payments in gold and silver specie-circulating countries are capable at times of making, without the least disturbance of their internal prosperity; and whence is it supposed that these payments come, but from their hoards? I have stated that the kingdom of France is supposed to employ a metallic circulation equal to one hundred and twenty millions sterling, being twice the estimated amount of our currency in England, coin and paper taken together; and, if one may venture to form an opinion as to the average proportion of this mass which lies inoperative in hoards of larger or smaller dimensions, from a comparison with the relative quantity of coin and notes which in this country are withdrawn in the reserves of banks and capitalists from active circulation, making due allowance at the same time for the different circumstances affecting the two circulations, I should be disposed to say, as I have indeed already said, that this portion of the metallic treasures of France considerably exceeds the circulating and effective portion. Nor, if England were to renounce her banking system, is it probable that a much smaller store of specie would be sufficient to ensure the regularity of her mercantile payments. Let us think, then, how the money market of a country transacting all its exchanges through the medium of the precious metals only, would be likely to be affected by the necessity of making a foreign payment of several millions. Of course the necessity could only be satisfied by a transmission of capital; and would not the competition for the possession of capital for transmission which the occa-

sion would call forth, necessarily raise the market rate of interest? If the payment was to be made by the Government, would not the Government in all probability have to open a new loan on terms more than usually favourable to the lender? And would not all this inevitably act upon the hoards, and draw forth into activity a portion of the gold and silver which the money-dealers had been accumulating, and some of them with the express view of watching such opportunities for turning their treasures to advantage?

I would desire, indeed, no more convincing evidence of the competency of the machinery of the hoards in specie-paying countries to perform every necessary office of international adjustment, without any sensible aid from the general circulation, than the facility with which France, when but just recovering from the shock of a destructive foreign invasion, completed within the space of twenty-seven months the payment of her forced contribution of nearly twenty millions to the allied powers, and a considerable proportion of that sum in specie, without any perceptible contraction or derangement of her domestic currency, or even any alarming fluctuation of her exchanges.

Or, to come to the present time, the balance of payments with nearly all Europe has for about four years past been in favour of this country, and gold has been pouring in till the influx amounts to the unheard-of sum of about fourteen millions sterling. Yet in all this time, has any one heard a complaint of any serious suffering inflicted on the people of the Continent? have prices there been greatly depressed below their range in this country? have wages fallen, or have merchants been extensively ruined by the universal depreciation of their stock? There has occurred nothing of the kind. The tenor of commercial and monetary affairs has been everywhere even and tranquil; and in France more particularly an improving revenue and extended commerce bear testimony to the continued progress of internal prosperity. It may be

doubted, indeed, if this great efflux of gold has withdrawn from that portion of the metallic wealth of the nation, which really circulates, a single napoleon. And it has been equally obvious, from the undisturbed state of credit, that not only has the supply of specie indispensable for the conduct of business in the retail market been all the while uninterrupted, but that the hoards have continued to furnish every facility requisite for the regularity of mercantile payments. It is of the very essence of the metallic system, that the hoards, in all cases of probable occurrence, should be equal to both objects; that they should, in the first place, supply the bullion demanded for exportation, and in the next place should keep up the home circulation to its legitimate complement. Every man trading under that system, who, in the course of his business, may have frequent occasion to remit large sums in specie to foreign countries, must either keep by him a sufficient treasure of his own, or must have the means of borrowing enough from his neighbours, not only to make up when wanted the amount of his remittances, but to enable him moreover to carry on his ordinary transactions at home without interruption.

And what more does the Bank of England do, when it complies with fresh applications for discount in the face of a drain, and replaces with new issues the notes brought to it for gold? The hoards of this country, as I have said, are all concentrated in the Bank; and upon the Bank alone devolves the duty of keeping up a stock of bullion, sufficient not only for the adjustment of foreign balances, but to maintain the internal circulation on a scale corresponding with the offices which it has to perform. The Bank therefore, by its efforts to meet any call that may arise for discounts, at a time when its treasure is failing under the pressure of a demand for exportation, is merely, I conceive, endeavouring to effect that which, under a metallic system, would be the spontaneous result of circumstances. It contributes nothing

by those efforts to enlarge improperly the circulation of notes; for every note which it issues in prosecution of them, unless really and immediately wanted for use, will assuredly be brought back to it in the course of a very few days. But, in following the analogy of the metallic system, the Bank has to contend with a cause of embarrassment from which the metallic system is exempt, in consequence of the obligation imposed on the Bank of preserving its own solvency. And one cannot contemplate the perfect silence and facility with which variations of the exchange usually pass off in continental countries, compared with the state of feverish disquiet and alarm always produced in England whenever the treasure in the Bank seems to be at all approaching to exhaustion, without being struck with the great advantage in this respect which a metallic currency possesses over a mixed currency, an advantage which it requires no light weight in the opposite scale to counterbalance. The Bank, however, has on no occasion since 1797 found it necessary, to withhold altogether any considerable portion of the accommodations to which the merchants had been previously accustomed; and it is well that it has not. There is no necessary relation of cause and effect, between the amount of gold drawn from the coffers of the Bank for exportation, and the amount of internal dealings of purchase and sale requiring the intervention of money. The number and value of those dealings remain wholly unaffected by the drain. And, setting aside the theory about over-issue and depreciation, no satisfactory reason can be alleged, why the parties concerned in those dealings should be denied the customary facilities for carrying them into effect. Upon the efficient portion of the currency the action of those drains is quite as insignificant under our system, as in countries where nothing circulates but the metals. In those cases where bank-notes are the medium through which the bullion is abstracted, those notes come not from the circulation, but from the reserves of the bankers and other capitalists.

But, in the last great drain of 1839, it was found that

very few notes were brought in at all. Since the crisis of 1825, it had become a general practice with the great money dealers who conduct these exchange operations, instead of holding large reserves in Bank of England notes, to keep their funds with the Bank in deposit. And the consequence was, that the gold was drawn out by cheque, and the burden of the drain fell almost exclusively on the deposits. This very irregular proceeding appears to have been particularly disconcerting to the currency theorists, and is the more memorable from its having given birth to another notable discovery, and that the very discovery, as it would seem, to which we are indebted for the project in the new bill for separating the departments of the Bank, namely, that the business of issue and of deposit cannot be safely carried on by the same establishment. A simple person might have imagined, that, so long as the gold was abstracted from the Bank, it could not signify much, whether it was drawn out through the medium of a note payable on demand, or of a deposit withdrawable on demand. But not so thinks Mr. Norman. Notes only are money, notes only act upon prices; and, unless for every ten sovereigns withdrawn there were a ten-pound note cancelled, there would be no contraction of the money, no reduction of the prices, and the drain might go on for ever. There was the bane here, without the antidote. It was pronounced accordingly, that "to check a drain, the reduction must be in the circulation."* And the result now stands thus: that, whenever the Bank has the misfortune to be called upon for gold by any of its depositors, it must inevitably submit to twice the purgation, which would have been sufficient had the gold been drawn out in exchange for notes; and, having first sustained a reduction of its assets corresponding with the amount of bullion demanded, it is next required to divest itself of another similar sum by the spontaneous contraction of its circulation!!

* See Mr. Norman's Evidence before the Commons' Committee of 1840 on Banks of Issue; Report, p. 146.

CHAPTER VIII.

Doctrines of Mr. Thornton and Mr. Loyd as to the interminable nature of Drains of Bullion for Exportation—Of the Means by which the Bank of England can check Drains of Bullion—Natural Termination of Drains, and Reflux of exported Bullion—Importance of increasing and economizing the Stock of Bullion in the Bank—Of Drains for which there can be no remedy—Of Drains which it is not desirable to check—Of Drains from extensive Purchases of Foreign Securities or from Mercantile Speculation.

ARE there no means, then, by which a drain of gold can be arrested, or are we never to permit ourselves to make use of them, but to sit in such cases with our arms folded, and commit the Bank to Providence? Mr. Jones Loyd assures us, that, whatever may be the amount of your reserve in gold, a drain of bullion once commenced will go on till the whole be exhausted, unless you stop it by contracting the paper; and that, whatever be the cause of the drain, “you have no means of recovering the bullion once drained out, but by contraction.”* This, certainly, is rather an alarming intimation. But it is consolatory to think, that, although Mr. Loyd states it as a fact, that “in three out of the four occasions on which the bullion has sustained a very heavy drain since 1819, the paper circulation was increased rather than diminished,”† the bullion did, nevertheless, in all the several crises mentioned by Mr. Loyd, somehow or other escape exhaustion;‡ and that, in each case, the

* See Report of Committee of 1840, p. 228.

† See ‘Thoughts on the Separation of the Departments of the Bank of England,’ p. 35.

‡ In one of these cases, that of 1839, Mr. Loyd himself seems to admit, that the drain was brought to a termination without any contraction. And by what imaginable effort of ingenuity is it supposed, that Mr. Loyd reconciles so marvellous an anomaly with his favourite hypothesis? Why, he attempts nothing of the kind; but, forgetting

bullion was eventually recovered, after the cessation of the drain, without any contraction. This *ignis fatuus* of the interminable nature of drains was first started, I believe, by Mr. Henry Thornton, who pursues his game, however, after quite a different fashion from Mr. Loyd, and seems to arrive at the conclusion, that any partial contraction of the paper issues can, after all, be of little avail to stop a drain for exportation, inasmuch as the

for the moment his hypothesis altogether, discovers, that a drain of bullion may sometimes be effectually stopped, even in the absence of contraction, by the most innocent process conceivable, namely, by exciting in the public mind a sufficiently strong apprehension of the likelihood and consequences of an early exhaustion of the stock. He maintains [See ‘Thoughts on the Separation of the Departments of the Bank of England,’ &c. p. 21, &c.] that “the drain of 1839 was stopped by the prevalence of general apprehension and alarm, which checked confidence and credit, and rendered a given amount of circulation *less efficient*.” A given amount of circulation *less efficient*! What may this be intended to imply? Is it possible, after all, that, in Mr. Jones Loyd’s opinion, paper may be issued in excess *without* a diminution of its value? that the same amount of bank-notes, which to-day sustains a high range of prices, may, under a change of circumstances, coexist to-morrow with a general depression of prices? If so, what becomes of Mr. Loyd’s great principle? I had always understood, however, that the effect to be apprehended from any alarm of a scarcity approaching to exhaustion of an article of universal and indispensable necessity, was the making every one eager to possess himself of as large a share as possible of the remainder, before it should altogether elude his grasp. It is of the very essence of panic, to give intensity to this sort of competition; and, according to all experience, nothing is so likely to excite or exacerbate a run on a bank, as the prevalence of an idea that its stock of treasure is nearly done. How, then, the very same circumstances can be made to operate as a restraint on the export of bullion, how the panic which impels every man to send his notes to the Bank for payment, should at the same time deter him from such a course from a sense of its inexpediency and mischief, is more, I own, than I can quite comprehend. The year 1839 was not a year of extravagant speculation. The efflux of gold was almost entirely to pay for corn. And it does seem strange, that Mr. Loyd should have puzzled himself so much to account for the sudden cessation of the drain, with this obvious explanation before him, that the importation of corn being completed, and the foreign balance being adjusted, the drain necessarily ceased of itself, and the exchange then reverted as a matter of course to the same condition in which it stood before.

whole bullion may be just as effectually drained out by the daily-repeated action of an issue of a hundred thousand pounds, resolutely kept in circulation, as by one of ten millions. Mr. Loyd's argument does not go quite this length; but it affirms the proposition, that, if there be ten millions of gold in the Bank when the drain commences, the drain must go on, so long as the circulation of notes remains the same, till the gold be exhausted; and that if, instead of ten, the reserve were twenty millions, the result would be just the same. And if there were any truth in Mr. Loyd's principle, which regards every drain as a manifestation of the diminished value of the currency and of nothing else, I do not know that the proposition could be effectually contested; though, followed out to its extreme consequences, it might lead to conclusions that would be rather startling. If, for instance, a reserve of twenty millions of gold coin would be exhausted by the operation of a drain uncorrected by contraction, with the same certainty as a reserve of ten millions, why not extend your supposition a little further? The same stringent necessity which forces out twenty millions, would equally force out a hundred millions, if there were so much to be had. Nay, if you could suppose the entire stock of gold existing in the world to be collected in the coffers of the Bank of England, the drain, according to Mr. Loyd's hypothesis, would never cease till the whole had been transferred to Hamburgh, Amsterdam, Paris, and some two or three other great foreign marts, though their united capacities for receiving and employing the metal might not in reality be equal to the absorption of a hundredth part of it. There is no better way of putting the soundness of a principle to the test, than by following it out to these extreme consequences.

But to return to the question, as to the practicability and expediency of endeavouring to place a limit on drains of bullion; that is a subject of some complexity,

and not to be so summarily disposed of. There can be no doubt, that the Bank of England possesses the power, under certain circumstances, of strongly influencing prices, and even turning a drain of gold; not, however, by the limitation of its issues, but by operating forcibly on credit. It is true that, when the Bank refuses to discount a bill, it refrains also from making an issue; but as the issue, if made in excess, would have been immediately returned, while the loan would have remained, the holding back of the issue is a matter quite of subordinate consideration; the real rub is in the denial of the loan. There is an important class of drains, however, which are not to be restrained at all by this action on credit. Neither is it at all times, nor under all circumstances, that the Bank, by refusing its accommodations, can operate forcibly on credit. It is only after private credit has been already so severely shaken, that the public are more or less reduced to a state of dependence on the Bank of England. The contraction of credit is far, therefore, from being an universal or perfect remedy, even when it can be safely or usefully administered. But it is a remedy which, to be effective, must always be violent. The whole framework of commercial confidence must be broken up, every holder of goods on credit compelled to sell, and the prices of commodities forced down to so low a point as to stop at once all further importations, at the same time that it holds out substantial and extraordinary attractions to foreign purchasers. By a severe course of measures like this, taken at the proper time, the Bank of England will generally succeed in bringing back the stream of bullion; and I do not say, that there may not be cases in which it may become the duty of the Bank, for its own protection, and even for the ultimate behoof of the community, to adopt, in the choice of evils, even this alternative. But it is an alternative always to be deprecated,—an alternative which, I believe, in the great majority of instances, may be safely

avoided, and which, when it can be avoided, ought never to be tampered with.

Since the practice, however, of investing capital in foreign securities has become general in this country, a new element has been introduced into the economy of our exchanges. The capital required for the liquidation of a foreign debt may be transmitted as well in the form of a marketable security for money, as in gold or merchandise. And, as the price of such securities rises and falls with the fall and rise of the market rate of interest, and the securities themselves accordingly are in a continual course of transition from places where the rate of interest is high to places where it is low, the fluctuations of interest have become an engine of some importance in the regulation of the exchanges, and, to the extent of their action, are found certainly a more manageable and safe instrument for facilitating foreign payments and correcting irregularities in the distribution of the precious metals, than the fluctuations of price. Of this engine, since the repeal of the usury laws, the Bank has been free to avail itself, for the counteraction of any drain on its coffers, to such extent as the Bank can control the market rate of interest. But the means of the Bank for this purpose are more limited, I suspect, than is generally imagined. And, while I am entirely agreed with Mr. Tooke,* as to the line of conduct which it is incumbent on the Bank to adopt during an influx of gold, with the view of preparing itself more effectually for any adverse turn of the exchanges, and think his plan of treatment for the drain, when it has set in, the most judicious that has yet been suggested, wherever it is at all applicable or practicable, I own I cannot help fearing, that Mr. Tooke is somewhat over-sanguine, when he anticipates that the Bank, by merely varying its rate of discount, and that to an extent scarcely exceeding one per cent., would in general be enabled in such cases to

* See Tooke's *Inquiry into the Currency Principle*, p. 115-17.

limit sufficiently the efflux of bullion, and save the money market from any violent derangement.

As with respect to credit and prices, so with respect to the market rate of interest, the influence of the Bank is only predominant at those periods when the public is in a state of dependence on the Bank. During the early stages of a drain, and more especially while those causes are still in progress which determine an adverse balance of foreign payments, and render a drain of bullion inevitable, there is no particular reason, in the great majority of cases, why credit should be in a depressed state. On the contrary, it will rather, I believe, be found, that a low range of interest and a great facility of banking accommodation are generally coincident with the commencement of drains. And I need scarcely add, that so far is the Bank of England at such seasons from being in a condition to prescribe or control the market rate of interest by any regulation of its discounts, that, without going into the market as a purchaser of securities, it would be unable to employ its funds.

But, exclusive of this difficulty, there are peculiar impediments, which in such cases powerfully oppose all attempts to produce a reflux of the bullion by any alteration of the market rate of interest, until the foreign balance is nearly or completely adjusted. This will be easily understood, when it is considered, first, that, *cæteris paribus*, the interest of money in a commercial country must always have a tendency to range high, whenever the returns of the merchants from abroad are delayed beyond the usual period, and it is not probable, therefore, that any difficulty in employing funds to advantage would be experienced in the creditor country, so long as considerable returns should be still in expectation; and, secondly, that, so long as there should be a high exchange in favour of the creditor country, and a profusion of bills in the market, the holder of bullion in that country, who might desire to invest his funds at interest in the debtor country, would find it more for his

advantage to lay out his bullion in the purchase of those bills, than to re-export the bullion. The foreign debt once discharged, indeed, the difference between the market rates of interest in the two countries would no doubt operate powerfully in accelerating the reflux of the specie. But, when all the circumstances which I have pointed out are duly considered, it can surprise no one, that our endeavours hitherto to govern the efflux and influx of bullion by variations of the rate of interest, and more particularly in 1839, when the drain was carried to the extent of considerably more than seven millions, notwithstanding a more decisive action on the rate of interest than had ever before been attempted, should have had so doubtful a result.

On the whole, then, it is abundantly manifest, that no safe means have yet been discovered on which we can place entire reliance, at all times, for the suppression or correction of a drain of the precious metals. And, if such drains were of that interminable nature in practice, which Mr. Jones Loyd maintains they ought to be on principle, we should certainly be in a deplorable way. Fortunately, however, it is not so. Different drains are of different intensity, and are more or less difficult to be dealt with, according to the difference of circumstances in which they may have originated, or by which they are attended. But each has its natural termination, in the spontaneous cessation of the causes which gave rise to it. Besides, it were monstrous to suppose, that commercial nations have any indefinite capacity for the admission of bullion. The gold which is exported for the discharge of a foreign debt is not wanted either for consumption or circulation at the spot to which it is sent, nor is it consumed or circulated there; and anything like a perpetual drain would soon become as intolerable to the recipient as to the disbursing party. It would be contrary to all analogy and reason to suppose that the millions of sovereigns, which at such times pass from this country to the continent, are absorbed there in the general circulation, and

go to enhance prices and raise wages. No. They merely return into the hands of the money dealers, the Jews and other great moneyed capitalists of Hamburgh, Amsterdam, and the other chief commercial cities of the Continent, who make a trade of exchanges, and by whom the same gold had probably been transmitted to this country in some preceding year. A portion probably is received back into their hoards. The rest they endeavour to turn to some profit on the spot. But the local employment for capital is limited; the market rate of interest falls; the gold becomes a drug on their hands; and they are glad ere long to re-export it to this or some other country where a secure and productive investment can be obtained for it. Thus, on both sides, the inevitable revolution of circumstances contributes to ensure sooner or later the reflux of the metal. And if the Bank can only hold out, with a tolerably full treasury, till the turn arrives, we are warranted, I think, by experience in saying, that the crisis may in most cases be got over, without anything more of disturbance or disaster than may be inseparable from the imprudences of which every crisis is fruitful. The best security against the mischievous consequences of drains is in the ability of the Bank to endure them. The public is always so much alive to the danger of total exhaustion, that even an approach to this point on the part of the bullion is apt to create a panic which doubles the intensity of the drain.* Unless, therefore, we are to renounce our system altogether, and return to a pure metallic currency, which no sane person would propose, it appears to me, that it would be more for the stability

* The catastrophe of 1797 was finally brought on by a run on the Bank of England from panic, excited by the alarm of foreign invasion, after the drain of gold for exportation had entirely subsided. And the Bullion Committee, notwithstanding their prepossessions as to the necessity of contraction in cases of over-issue, pronounce an unqualified condemnation on the course pursued by the Directors of the Bank on that occasion, and intimate an opinion, that the suspension of cash payments might have been avoided, had the Bank, instead of restricting its accommodations and issues, had the courage to extend them.

of the currency, for the safety of the standard, and for the repose and prosperity of the community, were we to turn our thoughts to the discovery of expedients for increasing and economizing the stock of bullion in the Bank, and so establishing the circulation on a broader basis, instead of wasting our invention on devices for cramping and impeding the use of it. That no precautions calculated to ensure this end, could safely or wisely be neglected, even if our means of controlling the exchange were infinitely more perfect than they are, will be more apparent, if we consider for a moment the several distinct classes of causes, in which drains commonly originate, and their respective bearings.

In the first place, there is a certain class of drains, and a class which at times has been not a little formidable, which has no connexion at all with the exchanges, nor is in the least to be controlled by any measures for the correction of the exchanges: I allude to drains originating in a demand for the precious metals with a direct view to use and consumption. I do not limit this observation to that portion merely of the metals, which is worked up into ornaments and utensils, and which can scarcely be liable to much variation in point of demand from one period of time to another. I include, equally, the large and frequently sudden demands, for coinage and for hoarding, for replenishing the treasuries of kings, the reserves of banks, and the military chests of armies. These demands, unlike the demands for specie originating in the exchanges, are not to be answered by the substitution of any other form of remittance: they can be satisfied only by the transmission of the metallic material itself. Where the object in contemplation is the discharge of a foreign debt, you may, by forcing down the prices of produce, or raising the market rate of interest, induce the debtor to spare your gold and silver, and make his remittance in some other shape. But, if it is the Emperor of Russia that is equipping an army for the field, or the United States of

America that are striving to provide themselves with a gold coinage, or the King of Prussia that has resolved on amassing a treasure of four or five millions at Berlin, you may reduce the prices of general merchandise ever so low, without making it a competent substitute for the bullion, or procuring the least relief to your money market from the demand that is pressing on it. A favourable balance of payments must always, no doubt, tend greatly to facilitate such a remittance; and, by contracting credit, or raising the rate of interest, you may enhance the cost of the gold to the purchaser, and prolong or impede the operation. But sovereign states are not to be diverted from objects which concern their power or independence, by considerations of a little more or less expense. When Russia, in 1828, contracted with Mr. Rothschild to procure a million of gold for the supply of her army invading Turkey, there was no question about the state of the exchange; the gold was, under any circumstances, to be transmitted; and it was, in point of fact, taken by Mr. Rothschild out of the Bank of England, at a time when the course of the exchange was in favour of this country, and when, as a mercantile transaction, the operation ought to have been impossible. Nearly a like observation might be applied to the remittance of the funds shipped in gold to America in 1834. In each of these cases there was a specific demand for the metal, which could not be satisfied by sending a like value in cottons or woollens, nor could be in the least advanced towards adjustment by a reduction of the prices of those commodities in the exporting country.

The case is much the same where the drain has originated in distrust or alarm, and the object for which the gold is sought is to hoard it in secret. In this instance, as in the other, nothing will satisfy the demand but the metal; and the less promptly and boldly that demand is met, the more intense, under such circumstances, is it sure to become. In 1830 a portion of our

bullion was called away from us, in consequence of the distracted state of the Continent. In 1832 the Bank of England lost nearly two millions, from a panic connected with the agitation which attended the progress of the Reform Bill. Runs on the different provincial banks, such as that which occurred in Ireland in 1828-9 and required a remittance of about a million of gold to arrest it—runs on the savings' banks—have been still more frequent, both requiring prompt aid from the metropolis, and imposing on all moneyed establishments the necessity of strengthening themselves with additional supplies of coin. It is seldom indeed that a commercial crisis has travelled through its regular stages, without producing somewhat of a panic towards the conclusion, and that panic giving rise to a drain,—a drain too wholly internal, and uninfluenced by the balance of foreign payments or the course of the exchange. And in 1825, it was not till after the exchange had been turned, and the drain of bullion for exportation arrested, that the real difficulties of the crisis presented themselves, in the runs on the London, country and Scotch banks, demanding supplies to the extent of some eight or ten millions, according to Lord Ashburton's estimate,* for the support of the country circulation. Nor is it only the circulating credit of a country, that is liable to be influenced by these panics. When mercantile confidence has been subjected to any violent interruption, every description of banking and other credit payable on demand is equally affected by it—equally liable to be made the medium of a drain of specie; and there is no assignable limit to such a drain, but in the duration of the panic which occasions it. During a revolution, the whole circulating specie of a country has been known, in an incredibly short space of time, entirely to disappear. And wherever the ministration of credit, in any shape, is employed largely in aid of money, the risk of the stock

* See Minutes of Evidence taken before the Committee for Coin at the Board of Trade in 1828, p. 533.

of bullion being at some time or other completely exhausted from this cause, is one which no imaginary precautions can entirely obviate; though, by prudence in the use of credit, and by adopting a high minimum for the scale of our reserves in bullion, the danger may no doubt be deprived, in ordinary times, of its more serious terrors.

As it is evident, then, that no line of policy which it is in our power to adopt, with a view to the government or correction of drains of bullion for the adjustment of foreign debts, will relieve us from the necessity of keeping ourselves armed with a competent stock of specie to meet every sudden demand arising from internal discredit or alarm, as well as every extraordinary call on the bullion market from abroad, our choice of systems for the regulation of the exchanges need not be embarrassed with any difficulties, as to the greater or less expense of providing specie for the furtherance of one plan rather than another. The specie is alike indispensable in either case; and, if the provision be as ample as it ought to be, to afford to the public anything like full security against the dangers of panic, it must be sufficiently ample for all other reasonable purposes; and, so armed, we shall be free always to shape our course according to the expediency of each individual case, without the constant apprehension of being hampered by the penury of our means.

But, besides those demands for specie, over which we have no control whatever, and which are only to be dealt with by satisfying them, there is a very large and important section even of the drains occasioned by an adverse balance of payments, which are so intimately connected in their origin with objects of the last interest to the public welfare, that nothing short of the most extreme necessity would seem to justify any interference with them. Of this class the first which present themselves are drains for the purchase of an extraordinary supply of foreign corn. To repair the calamity of a de-

ficient crop of grain must always be a point of such vital concern to the whole community that, one should think, considerable inconvenience and even risk might fairly be incurred for its attainment. For my own part, if I attach a high value to the maintenance of the metallic basis of our circulation, it is on no account so much as for the services which the metals are capable of rendering, and which paper cannot render, in emergencies such as this; and I really know not, why such enormous stores of coin are to be hoarded up at so vast an expense, if they are to be at all times inexorably withheld from the public, whatever be the urgency of the need. I can perceive nothing chimerical, nothing at variance with sound economical principles, in the expectation, that a great public body like the Bank of England should, in all such seasons of distress, be in a condition to advance, without inconvenience to itself, the funds indispensable for the public relief, postponing their reimbursement till the ordinary course of industry shall have had time to repair the deficiency. The Bank of England stands, as it were, in the place of a vast national granary, to which, in seasons of famine, the community is entitled to resort for succour. By the necessary effect of the system of which the Bank is the key-stone, nearly the entire metallic wealth of England has been transferred to its custody from the hands of individuals; and on the Bank accordingly devolves the duty of holding that wealth available for the various public exigencies, to which it would assuredly have been applied, had its distribution never been interfered with. And when the country bankers, by putting out, after a deficient harvest, an additional circulation of notes at those spots where they are most urgently wanted, contribute to fill up some part of the vacancy left by the action of the exchanges on the circulation of the Bank of England, I consider, that they are merely fulfilling their part in the general plan, and following with the most perfect exactness the analogies of a metallic currency. Yet the chief grava-

men of the charge, which the currency party prefer against the country banks, is that, during the great drain of 1839 for the purchase of corn, while the circulation of the Bank of England continued nearly stationary, those banks increased their accommodations to the farmers, and gave an enlargement to their issues very moderately proportioned to the advance in the prices of agricultural produce.

A failure of the harvest is doubtless an infliction, from which no people can expect to escape without some share of suffering and privation. But, “when we are in want of necessaries, we part with superfluities;” and a poor and half civilized community, which accumulates its hard earned savings in unproductive heaps of gold and silver, has at least this advantage when overtaken by dearth, that it can resort freely to its more fortunate neighbours, and, in exchange for some portion of its treasure, obtain the relief which it requires, without the apprehension of any consequence beyond the immediate pain and inconvenience of the sacrifice. But under our artificial system, nothing of this kind, it seems, is to be permitted. To the single object of preserving a certain arbitrary proportion between the treasure in the coffers of the Bank of England and that portion of the circulating credit of the country which has been dignified with the name of money, all other considerations are to give way. And, lest that proportion should be in any way disturbed, it is proclaimed to be the imperative duty of every banker, whenever the supply of corn is insufficient for the subsistence of the population, to refrain from aiding or abetting in any manner the efforts of the people to remedy that deficiency, either by the exertions of home industry or by drawing on the surplus produce of foreign nations. The people are told, indeed, in nearly so many words, that, under such circumstances, they have nothing to do but to starve. And this, then, is to be the brilliant result of all our refined devices—the utmost that science can do for the perfect regulation

of our monetary system—that this great nation, with all her accumulated wealth, the envy of the world, with her unlimited powers of production, and credit which never failed her through a war with almost all Europe of nearly a quarter of a century's duration, is to be condemned to a state of helpless inertia under the heaviest calamity which Providence can inflict, and, with ample means of relief at her command, is voluntarily to refrain from making use of them !

Nor let it be said, that these are hypothetical or extraordinary cases, which the legislature is not called upon to foresee or care for. The vicissitudes of harvests not only form an important element in the economy of the exchanges, but in times of peace exercise probably a more powerful and more frequent influence over the course of bullion than all other causes put together. Mr. Lowe, in his work on the 'Present State of England,' has given us an instructive table, in which all the great falls of the exchange from 1792 to the time at which he wrote (1823) are traced by him with considerable precision to two principal and predominant causes, viz. the vast expenditure of government in foreign subsidies, and the large importations of foreign corn.* In our own times, we have had no well ascertained instance of any drain of bullion originating simply in a speculative demand for commodities, and unconnected either with internal discredit or foreign expenditure or investment, to be compared for extent or intensity with the drains for the purchase of corn, which have followed every failure of the crops ; and I believe, indeed, it may be safely affirmed, that, except in the single instance of 1825, there has not occurred within the last half century a drain of any importance, at all commercial in its origin, to which the importations of corn have not more or less

* See Lowe on the 'Present State of England,' p. 83. Had Mr. Lowe included the foreign military expenditure of the country under the same head with the subsidies, his proposition might have been in more literal accordance with the truth.

contributed. Nor must we deceive ourselves by supposing that it will ever be otherwise. There are those, indeed, who would have us believe, that all this is to be finally set right by the repeal of the Corn Laws. But I have heard nothing yet to convince me, that even that blessed consummation, which is to add to the contented and tractable population of Lancashire another million or more, alternately thriving and starving on the produce of foreign soils, is capable of reversing the laws of nature and society. I cannot perceive, how a large and permanent addition to our regular imports, whatever may be the commercial advantages attending it in other respects, can facilitate the influx or recovery of bullion. Nor am I aware of any principle on which it can be held, that a corn growing nation, like Poland for instance, which sells to a regular customer a given share of its produce in every ordinary year, should be more likely, in years of famine, to grow a surplus in excess of the stock of grain required for its consumption and export together, than a country which consigns the superflux of every productive season to rot in its warehouses.

But, as a regular supply of food is indispensable in every country to the comfort and contentment of its inhabitants, so the vigorous prosecution of its foreign wars is frequently of the last consequence to its safety and independence as a nation. To these objects also, it is perfectly fit and expedient, that the monetary polity of each country should to a certain extent be subservient; and no scheme of currency would deserve to be upheld for a day, which left such emergencies wholly unprovided for. Happily, we have not for many years had any practical experience of the action of a foreign war expenditure on our exchanges. But we know enough of the magnitude which such disbursements are capable of attaining, from examples still in the memory of many of us.

We have thus before us a rather formidable catalogue of drains, which are either entirely beyond the reach of remedy, or to which no remedy can be applied without

entailing consequences only less deplorable than the exhaustion of the bullion. There remain only two classes of any importance to be noticed—namely, those cases in which a foreign debt has been created by very extensive investments of capital in foreign securities, the other where the mischief has originated in speculation and over-trading. These two classes of drain differ altogether, in respect to the merits of their origin, from drains for the purchase of corn or for purposes of warlike expenditure, and have no claim to be treated with the same tenderness. Besides, a drain for the purchase of corn has a natural and certain limit, as well in the quantity of corn required as in the quantity procurable; and the expenses of a foreign war, however liable to run into extravagance, must always be necessarily subordinate to the discretion and the ability of the government. But there are scarcely any assignable limits to the scale, on which capital may sometimes be squandered in foreign investments. I have seen an estimate, which carries the amount of remittances for this purpose in the fifteen years antecedent to 1832, to 150 millions!* And, incredible as this may appear, the destruction of capital since that period, consequent on such investments, has been so tremendous, that I do not know that we have any right to reject it, on the mere score of the comparative inadequacy of the income at present derived from such property. And, as to those drains again which take their rise in mercantile speculation, in the attempts of individuals to govern markets by an undue interference with the natural course of supply and demand, and to sustain a higher range of prices in one country than obtains in the neighbouring countries, or than the cost of production warrants, the limits of such drains, in point of intensity at least, are almost equally indefinite, though they generally find a sufficiently early termination in the failure of the enterprises which have led to them, and in the discredit which in

* See Mr. Burgess's evidence before the Committee of 1832; Report, p. 448.

times of excitement such failures inevitably bring along with them.

It is not that we have any just ground for condemning in the abstract, either investments in foreign securities or speculations in produce. So long as such enterprises are conducted with ordinary caution, and neither sustained nor extended by any dangerous or unwarranted facilities of credit, the influence of both may be exceedingly beneficial. Investments in foreign securities constitute at times a very convenient and useful outlet, for those overflowings of domestic capital, which exceed the immediate capacity of advantageous employment offered by the home market; and it seems impossible to doubt, that the wealth and prosperity of a community must be promoted, by every prudent and judicious accession to its income from the tributary industry of foreign states. And so again, with respect to speculation, the legitimate inducement to invest capital in a speculative purchase of produce is the anticipation of a diminished supply; and, so long as this anticipation is well grounded, and the speculative action is only meted out in a due proportion to the real extent of the scarcity, the effect of the speculation is, by raising the price of the commodity, to ensure economy in its use, to equalize the distribution of supply, and to moderate the abruptness of the transitions from abundance to scarcity, and from scarcity to abundance. In this point of view, the speculator may be considered as a public benefactor, and "speculation," to use the language of Mr. McCulloch, "is but another name for foresight." It is only by their excesses, that those modes of employing capital are turned into public nuisances, and that it becomes consistent with public policy to discourage or abate them. It is true, indeed, that such excesses seem to be scarcely separable from the existence of the things themselves. In an age like the present, when the gambling spirit has acquired so irresistible a predominance, moderation in the pursuit of any object of cupidity is scarcely to be calculated on. With a few

examples of partial success to encourage confidence, the passion becomes so reckless as to discard nearly all consideration for realities. And when, with circumstances inviting to speculation, there concur any extraordinary facilities of credit, and those facilities are freely turned to use, the effect in general is anything but that of equalizing prices and supply, or moderating sudden transitions from plenty to scarcity and from scarcity to plenty. With respect to foreign investments, again, they have been found quite as liable to fall under the influence of the speculative mania as any adventures in commerce, and seem, I may say, beyond everything else, calculated to familiarize men's minds to habits of reckless and inconsiderate credit, and to become the ready instrument of fraud and spoliation. Among all the various devices, indeed, for the chastisement and repression of wealth, which have signalized this latter age, there are none which have at all rivalled in their effects, the wide-spread destruction of property produced by the multiplication of foreign loans and foreign mining and banking schemes.

Upon the whole, the risks and miseries which follow in the train of all these enterprises appear so far to preponderate over any advantages which the public is likely to derive from them, that I cannot regard them as entitled, under any circumstances, to any special favour or consideration from the Bank of England. On the contrary, the part which seems to me the most befitting the Bank, and the most consistent with the duties of circumspection and forbearance prescribed by its position, is to hold itself aloof from all transactions of a speculative character, and refuse the aid of its credit in any shape to those who are avowedly or notoriously engaged in them. And, when it finds the balance of foreign payments becoming unsettled, from the multitude and magnitude of such projects, the exchange depressed, and its treasure menaced with exhaustion, if it does not immediately exert itself, to the full extent of its power, to break up the speculation, and compel as many of the parties as it can

control to bring their securities or their commodities (as the case may be) to market, it ought not to be from any particular tenderness to the individuals, but from a desire to spare, if possible, the number of innocent sufferers who would be involved in the catastrophe, and I may say indeed the public at large. At what particular time, in such cases, it may be incumbent on the Bank to *act*, and in what manner and to what extent it should *act*, are points on which it is obviously impossible to lay down any general rule, but which must be determined by the circumstances of each particular case, by the nature and subjects of the speculation, by the length of time which it has lasted, by the existing prospect as to its continuance or abatement, by the extent of mischief which it threatens, and by the state of the resources of the Bank itself. To watch all these indications with care and sagacity, and to follow out the decisions which they suggest, is by far the most delicate and arduous of the duties which the Directors of the Bank have to perform; and, what is more, it is a duty which a body of Directors, who have their own private affairs to attend to, and do not give their whole time, thoughts and energies to the concerns of the Bank, can never very satisfactorily fulfil.

But in these cases, where an effectual curb to the prevailing mania would often be so desirable, the real power of the Bank of England is quite as much circumscribed as in every other. The state of the circulation has about as little to do with the aberrations of speculators, as with a failure of the crops or the waste of a foreign campaign. Speculation is not supported solely by banks of issue, nor is it confined to countries using a bank-note currency. In the recent lists of bankruptcies, from over-facility of credit, the non-issuing banks bear their fair proportion; and such cases as that of Wright exemplify the extent to which even the wildest and most hopeless speculations may be upheld by banks of deposit. Nor does a metallic currency afford any particular safeguard against such

transgressions. On the contrary, we have abundant evidence to show, that prices may be inordinately raised, and a vast speculative extension given to transactions, compatibly with the co-existence of any and every system of circulation, be it metallic, conventional, or convertible. Witness the immense speculations in colonial produce carried on at Hamburgh in the years 1797 and 1798, and extending to other towns of Germany and Holland, with their fearful termination in 1799, when eighty-two Hamburgh houses became bankrupt, with engagements to the extent of two and a half millions sterling.* Witness the several alternations of commercial excitement and revulsion experienced at other previous periods on the Continent, during the course of the last century, in 1763, in 1771-2, and in 1778-9.† Witness the extraordinary fluctuations in the value of colonial and other imported articles in France and other parts of the Continent during the period from 1808 to 1822, fluctuations far exceeding those in this country, and the extreme variations there of the price of corn in 1817 and 1818, terminating in a revulsion which greatly aggravated the difficulties of the important money crisis of the latter year. Witness the insanities of the period of the South Sea bubble in this country, originating at a period (1721,) when, for practical purposes, as remarked by Mr. Tooke, the circulation might be considered metal-

* See Tooke on High and Low Prices, ed. 1823, Part I., p. 176.

† These commercial crises on the Continent are mentioned in Sir Henry Parnell's 'Observations on Paper-Money,' &c. (p. 75), on the authority of statements recorded in the 'Gentleman's Magazine' and Annual Register for those years. The money crisis of 1763 commenced at Amsterdam, and appears, from the account in Dodsley's Annual Register (vol. vi., p. 102), to have been of great severity. Eighteen houses of business stopped payment at Amsterdam; and these failures were followed by others, much more extensive, at Hamburgh and other places. For a time all private credit was suspended, and no business could be transacted but for ready money. And, but for the large supplies of cash furnished by the Lombard houses at Amsterdam and Hamburgh to such establishments as could give security, the havoc would have been still more fatal.

lic, the Bank issues at the commencement being under two millions.*

It is in vain to tell us, that, on such occasions, the measures of the Bank of England for arresting a drain generally come too late, and "after the mischief has been done;" † that the first tendency to a depression of the exchange, which generally shows itself in anticipation of the demand for gold, ought to be carefully watched, and immediately met and counteracted by a corresponding restraint on the issue of notes.‡ The measures of the Bank never can come otherwise than late, nor ever will. All that the Bank can do, at the commencement of a drain, is to remain passive, and abstain from all abetment of the peccant parties. As the money market is usually circumstanced at such periods, the Bank might contract its issue of notes, but it could not contract the amount of accommodation actually at the command of the speculators. So long as credit was rampant, accommodations would continue to be obtained, without the aid and in defiance of the will of the Bank. They would be obtained, probably, without the intervention of bank-notes at all; or, if notes were wanted, a supply would be extracted from the Bank through the deposits. The contraction of the issues either would not be felt, or it would be felt merely as an inconvenience, confined to that particular class of transactions for which bank-notes are the customary medium. As to speculators acting with their own funds, and paying out of those funds for the foreign securities or the merchandise which they purchase, they must always be quite independent of the Bank, and cannot be affected by any measure of contraction, however severe, or in whatever stage of the crisis. Neither is their failure or success a matter of

* See Tooke's 'History of Prices,' vol. ii., p. 164-5.

† See Mr. Dyer's Evidence before the Committee of 1832 on the Bank of England; Report, p. 316.

‡ See Mr. S. J. Loyd's Evidence before the Committee of 1840 on Banks of Issue; Report, p. 288-9.

much serious importance to any one but themselves. It is only the speculators acting on credit whom the Bank can touch, and those in general only when the speculations are nearly on the point of failing, and the speculators have lost their credit. It is then that the power of the Bank displays itself; and then, as has been truly observed, "the mischief has been already done." It may be added too, that then the remedy is already at hand; the speculation is on the point of breaking up of itself, and the tide of bullion returning; and nothing is likely to remain for the Bank but, after consigning the speculators to their fate, to re-open its stores, and rally to the succour of those, who may have saved enough of property from the general wreck, to have still some security to offer for a share of the Bank's advances.

As the sole inducement which leads to speculations in foreign loans is the desire of the possessor of capital to make a larger interest on his money, it may not unreasonably be thought, that the appropriate remedy for any drain of gold originating in such speculations should be an advance of the market rate of interest, and that the Bank, in cases of this description, by simply operating on the interest market, might succeed in arresting the efflux of the metal, without any material shock to credit or disturbance of mercantile affairs. And such would no doubt be the case, if the Bank held at all times the control of the market rate of interest in its own hands. But, as I have already explained, that power only accrues to the Bank, when the public has already to some extent become dependent on the Bank for its discount accommodations. And the very nature of the circumstances assumed precludes the possibility of such a state of things coexisting with the origin or early stages of the drain. It is the low range of the market rate of interest at home which constitutes the chief incentive to these investments abroad; and such a range is obviously incompatible with the supposition, that there can be any pressure on the Bank for discounts. Nor will it be until

the remedial process shall have already attained a certain degree of maturity through the necessary working of events, until an advance of the current rate of interest shall have already been effected by the competition of sellers of foreign securities in the money market, that the Bank will have arrived at a position, in which it can successfully cooperate to stop at all events the further progress of the evil, by extinguishing for a time the motive, which had given the extraordinary impulse and extension to foreign transactions.

It may indeed be conceived without difficulty, that, in a considerable majority of cases, the Bank of England might obtain the requisite command over the market rate of interest, before its stock of bullion had absolutely approached the point of exhaustion, and before it would be either advisable or practicable to attempt a forcible operation on credit. In such case, a judicious exercise of the temporary power thus acquired by the Bank might be turned possibly to very beneficial account for the restoration of the exchanges, whatever might be the nature of the speculation which had led to their derangement. But it would be a great mistake indeed to suppose, that it is in the will of the Bank of England, or of any similar body or combination of bodies, to regulate on the large scale, or for a length of time together, a thing so uncontrollable.

That a wild spirit of speculation and adventure is not only essentially promoted by any long continued depression of the market rate of interest, but that the difficulty of procuring secure and productive investments for capital is at the root of nearly all those violent paroxysms of speculative excitement which occasionally convulse the money market, is a truth which, if it had not been questioned by very high authority, I should have thought indisputable. It is not merely that, in every speculative undertaking, the amount of interest which the speculator has to pay if he acts with borrowed capital, or which he must forego if he acts with his own, constitutes an im-

portant item in his calculation of profit—for interest being one of the elements of cost, it is only by very temporary or incidental variations that the rate of profit can be affected; in all other cases, the gain or loss falls to the consumer. The real incentive to speculation, whether in the more hazardous class of securities or in merchandise, lies deeper than this. It is an incentive, which operates like a contagion on the minds of capitalists themselves.

Without entering into the abstract question so much debated among economists, as to whether such a thing as an over-supply of capital be possible, I may venture, I think, to state, without much fear of contradiction, that, under the present constitution of society in this country, what with the annual savings from income and the large fortunes in constant course of remittance from the colonies, the amount of capital seeking productive investment accumulates in ordinary times with a rapidity greatly out of proportion to the increase of the means of advantageously employing it. The subjects of investment which are chiefly in favour for their safety and convenience, such as the public stocks, are either stationary in amount or in a gradual progress of diminution. There is only a certain fund to be divided; and the effect of any new capital being invested in it, is merely to alter its distribution, without in the least adding to its quantity. The competition inevitably raises the price. And a rise of the price of securities is identical with a fall of the market rate of interest. The Government is enabled to reduce the interest on its funded debts, and landed proprietors to renew their mortgages on easier terms. The capitalist finds his income reduced perhaps by a third; and, after waiting for several years in expectation that matters may take a favourable turn, he loses his patience, and, in his eagerness to regain his former position, he becomes disposed to listen with avidity to any project which holds out the expectation of a better return for his money. His scru-

ples on the score of security insensibly give way before the splendid visions of gain which are presently spread before him. A few examples of successful enterprise are sufficient to raise the most absurd hopes. From the market for securities, the delusion spreads to the produce market. Every article becomes in its turn the object of speculative purchase, without the least regard to the state of consumption or supply.* The faith of each man in the continuance not only of his own prosperity, but of that of his neighbour, becomes so strong, that the most boundless credit is frequently lavished in the support of the most worthless schemes. Everything in the

* On this part of the question I regret to find myself at variance with Mr. Tooke, who denies that a fall of interest furnishes any sufficient motive for speculation, or has a tendency to raise prices. Mr. Tooke's judgment is in general so accurate, that I should be inclined very much to distrust any conclusions of my own that stood in express contradiction to his opinions. But he views this question under so different an aspect from that in which I have presented it, and most of his propositions are really so far from being irreconcilable with anything which I have advanced, that I am disposed to think the grounds of difference may not, after all, be very substantial. I entirely admit, that a depression of the market rate of interest has no necessary or direct tendency to raise prices; that it may frequently subsist for a considerable period of time without raising them; that, inasmuch as it contributes to lower the cost of production, it ought rather to have a contrary effect; and that it only acts on prices indirectly by the impulse which it occasionally gives to speculation. I am further free to allow, that the legitimate inducement to speculation in commodities is the prospect of a deficiency of the supply, and of a consequent advance of price, and not the mere facility of borrowing. And, were all speculations based on sound principles, doubtless the fluctuations of interest would have very little share in producing them. But what I am speaking of is not sound or rational speculations, but speculations extravagant and monstrous. And such speculations, I cannot but believe, that a low condition of the market rate of interest sometimes predisposes the minds of capitalists to entertain with a complacency, which, in more sober moments, would be quite foreign to their natures. Of the extent to which speculations in merchandise may be carried, under the influence of such delusions as I have described, without the slightest regard to the state or prospects of supply, I need seek no better evidence than is furnished by Mr. Tooke himself, in his account of the speculations of 1825. (See 'History of Prices,' vol. ii., chap. 8, sec. 3.)

nature of value puts on an aspect of bloated magnitude ; till at last the exchange becomes affected by the unnatural rise of prices, the bullion is sent abroad, a panic ensues, and the bubble bursts, with a destruction of capital which relieves the money market for a season of the load which had oppressed it, abates competition, and restores the market rate of interest to the level from which it had declined. The results in such cases may be more or less frightful or disastrous, according to the direction which capital takes ; and that is a matter very much in the hands of fortune. But the malady can generally be traced to the same common source. Sir Robert Walpole's measures for reducing the interest on the national debt from 6 and 8 per cent. to 4 and 5 per cent., and establishing a sinking fund for its redemption, preceded not very long the insanities of the Bubble year ; and in the debates in Parliament about the same period, we meet with complaints of the "glut of money" in England. And so in 1825—I look upon all the vicissitudes of that year as nothing more than the legitimate consequences of the previous rise of consols from $73\frac{1}{2}$ in 1823 to 95, the conversion of the five per cents. in 1822 and of the old four per cents. in 1824 into stocks bearing interest respectively at the rates of 4 and $3\frac{1}{2}$ per cent., and the reduction of the Bank rate of discount to 4 per cent.* During the continuance of the war, and so long as the market rate of interest was maintained at a high level by the constant pressure of government loans on the

* Mr. Gibson Craig, in his evidence before the Committee of 1826, (See Report, p. 267), gives rather a striking picture of the consequences which followed the decline of the market rate of interest in Scotland, in and previous to 1824. In that year, the Scotch bankers were under the necessity of reducing the rate allowed by them on deposits to $2\frac{1}{2}$ per cent. With this their customers became generally dissatisfied. They proceeded, Mr. Craig says, to look about in all directions for investments offering them a better return, they embarked greedily in joint-stock companies, they lent out large sums to builders and on what is universally regarded as an inferior security, and many of them became builders themselves.

market, the public tranquillity was never disturbed by phenomena at all resembling those of 1825. There were several commercial revulsions, indeed, and one or two of great violence, but all more or less connected with the incidents of foreign trade. The capitalist living on the interest of his capital took no part in them; and so long as he could earn 5 per cent. or upwards per annum on Government security, it is obvious, he could have little inducement or excuse for risking his principal in untried experiments. It is not in times like those, but in seasons of stagnation and redundance, that the schemer rises into notice; and from the Bubble year downwards, I question much if an instance could be shown of any great or concurrent speculative movement on the part of capitalists, which had not been preceded by a marked decline of the current rate of interest.

From more recent events, indeed, one would almost be tempted to suspect, that a periodical destruction of capital has become a necessary condition of the existence of any market rate of interest at all. And, considered in that point of view, these awful visitations, to which we are accustomed to look forward with so much disquiet and apprehension, and which we are so anxious to avert, may be nothing more than the natural and necessary corrective of an overgrown and bloated opulence, the *vis medicatrix* by which our social system, as at present constituted, is enabled to relieve itself from time to time of an ever-recurring *plethora* which menaces its existence, and to regain a sound and wholesome state. But, however this may be, it is at all events evident, that they proceed from too deep and too powerful causes to be effectually counteracted by any appliances within the reach of the law, and, above all, by any appliances so mistaken and so entirely alien to their nature and origin as an artificial limitation of the currency. Their terrors, after all, are chiefly for the imprudent and the negligent. And having made such provision as is in our power for tempering their severity and limiting their duration, all

that remains for us is to endure them. The present aspect of the money market differs in some of its most important features from everything which has gone before. After four years of uninterrupted influx, raising the Bank treasure to a higher level than was almost supposed possible, the current of gold begins just to show signs of wavering; and the accumulation seems to have reached its limit or very nearly so. Consols are at par, and the interest of money for short periods and on the best security does not exceed $1\frac{1}{2}$ or 2 per cent.: yet commercial affairs are still in a perfectly satisfactory state; industry is fully employed, and trade thriving; while the range of prices continues low, and the spirit of enterprise, though sufficiently strong for every useful purpose, shows hitherto no disposition to embark in any very wild or hazardous projects. Our American losses are still fresh in every man's recollection; and circumspection and moderation are the order of the day. But let us not deceive ourselves by supposing, that this is to last for ever. The flame is only suppressed. It is wonderful, how soon even the severest lessons of experience are forgotten, where there are strong temptations to mislead. Men will not always be content with a return of $1\frac{1}{2}$ per cent. from their capital. And there wants only some small addition to the existing disproportion between the growth of capital and the opportunities of profitable investment, a disproportion to which carefulness is always adding, and a few examples of new and eccentric adventure rewarded with fortune, to set the wisest heads once more agog. The hour may for some time yet be deferred, but it will come at last, with all the certainty if not with the regularity of the seasons; and not probably the later for this bank-note restriction bill.

CHAPTER IX.

Plan for administering the Affairs of the Bank of England by separate Departments for Issue and Banking—Arguments adduced from Analogy in favour of this Plan answered—(Note) Feebleness of the recent Attempts of the Press to grapple with Mr. Tooke's Arguments; and Remarks on Mr. Jones Loyd's Statements as to the course adopted by the Bank of England during the Drain of Gold in 1832—Results of the Banking System of the United States of America—Insufficiency of the Circulation allotted by the Bill for the wholesome working of the System—Of the Issue of Bank Post-Bills under the New System.

I HAVE extended to so unreasonable and unforeseen a length my argument on the principles by which it is proposed to administer for the future the bank-note circulation of this country, that I have but little space or leisure left for the discussion either of the details of the government bill, or the specific reasoning by which the measure has been supported. In fact, the entire case is one of principle, and on that ground must stand or fall; and it is on that account I have thought it necessary to treat the several questions of principle so fully. The small number of extraneous arguments adduced in debate have not been remarkably felicitous; but some of the special provisions and bearings of the bill demand particular observation; and a few remarks on both topics may not perhaps be thrown away.

By the new plan, the Bank of England is to be divided into two departments,—a department of issue, and a banking department,—which departments are to keep separate books of account, and to carry on their respective functions entirely independent of each other. The issuing department alone is to have the privilege of creating notes; and its power of issuing on credit is to be strictly limited to the sum of fourteen millions sterling, for which the debt of eleven millions due to the Bank by Government, and the further sum of

three millions in negotiable public securities, are to be pledged to it as security. All issues in excess of the fourteen millions must be in exchange for gold or silver coin or bullion, all persons being entitled to demand from the department of issue Bank of England notes for standard gold at the rate of 3*l.* 17*s.* 9*d.* per ounce, and the proportion of silver to be held by the said department at any given time being limited not to exceed one-fourth of the gold. The functions of the banking department, on the other hand, are to be confined to the ordinary business of a bank of deposit. That department is to retain in its hands all securities at present possessed by the Bank in excess of the fourteen millions pledged to the department of issue, and all the coin and bullion possessed by the Bank in excess of what may be required to make up, with the fourteen millions of securities to be transferred to the issue department, a sum equal to the total amount of notes at the time in circulation. Of the coin and bullion remaining with the banking department, any portion may be exchanged at pleasure for bank-notes; but the department of issue is strictly prohibited from issuing any notes either into the banking department or to any person or persons whatsoever, save in exchange for other Bank of England notes, or for gold coin or gold or silver bullion, to be received or purchased in conformity with the provisions of the Act, or in exchange for the securities to the amount of fourteen millions above-mentioned. And, upon any diminution of the aggregate amount of coin, bullion, and securities in the issue department, the Bank is required to call in and reduce the amount of notes in circulation to the same extent. In the event of any joint-stock or private bank of issue discontinuing hereafter the issue of notes, the Bank of England is empowered, with the sanction of Her Majesty in Council, to increase its issue on securities to an extent not exceeding two-thirds of the amount of notes suppressed; but the profit on such

increased issues is to go to the State. The issues of joint-stock and private banks are not to exceed, in future, the average circulation of each bank respectively during the twelve weeks antecedent to the 27th April last; and no new banks of issue are to be permitted.

Sir Robert Peel rests his justification of these measures of restriction on the assumed soundness of the currency doctrines of over-issue and depreciation, and on the obligation resulting from those doctrines, to restrain our bank-note circulation within the limits prescribed by the fluctuations of the metallic money with which it is associated. And he enforces his argument, by historical reference to certain remarkable instances, in which currencies have been depreciated by an excessive issue of notes, and have afterwards been restored to the metallic par by contraction. And, what are those instances? The first alluded to is the case of the Bank of England shortly after its establishment, when, in consequence of its excessive issue, it is stated, that "the notes of the Bank were at a discount of 17 per cent." "After trying various expedients," we are told, "it was at length determined to reduce the amount of bank-notes outstanding, and the consequence was an immediate increase in the value of those which remained in circulation, the restoration of them to par, and a corresponding improvement in the foreign exchanges." Sir Robert Peel, however, forgets to mention that, at the period of which he speaks, the note circulation *was not in a convertible state*. How, indeed, could it have been so? Was such a thing ever heard of as a really convertible paper at a discount of 17 per cent.? It is a contradiction in terms. The circumstance in question happened in 1696, two years after the institution of the Bank, and during the great re-coinage of silver. Silver was at that time a legal tender in this country for all sums, and the principal money of exchange. But the old circulating coin had for some time been in so degraded a state, that the market price of the metal had become permanently in

excess of the Mint price ; and under these circumstances it was the necessary effect of a re-coinage, that the new and heavy coin, as fast as it was issued from the Mint, was melted and sold.* The notes of the Bank of England were brought in, and the coin taken out for melting. The Bank's treasure was exhausted ; the Bank suspended its payments ; and its notes then, but not before, very naturally fell to a discount equal to or exceeding the difference of value between the old silver and the new. This, I believe, is the plain history of this specimen of depreciation from over-issue ; and what imaginable analogy or resemblance such a case can be supposed to bear to the present circumstances of the Bank of England, is, I own, beyond my comprehension. Even if the circumstances had not been so distinctly traceable to the coincidence of the re-coinage, the fact of the depreciation at that period could have furnished no argument applicable to the case in hand. No one has ever disputed, nor can dispute, that nonconvertible paper may lose its value from excess of quantity. But to infer, therefore, that an issue of convertible notes ought to be subjected to limitation, is to beg the whole question.

The next case is that of the Irish currency in 1804, when "the exchange of Ireland with England was so unfavourable, that it required 118*l.* 10*s.* of the notes of the Bank of Ireland to purchase 100*l.* of the notes of the Bank of England." That was again the case of an inconvertible currency. It occurred during the full operation of the Bank Restriction Act, when not a single sovereign had passed out of either the Bank of Ireland or the Bank of England for seven years. There is cer-

* Previous to the new coinage in 1695-6, the market price of silver was 6*s.* 4*d.* per ounce, against 5*s.* 2*d.* the Mint price. It would appear, that, in this instance, the melting of the silver was still kept up, even after the completion of the coinage, in consequence of the gold becoming from this time the over-rated metal, and therefore the practical standard. Before 1717, it is said, that the silver of this coinage had entirely disappeared from circulation.

tainly strong reason to presume, that the unfavourable state of the exchange with England was accompanied at that period by a considerable depression of the value of the Irish currency. But it will be found, I believe, a more debatable point than Sir Robert Peel seems willing to allow, whether either the adverse exchange or the diminished value of the currency originated at all in any excess of issue on the part of the Bank of Ireland, or was eventually cured by the contraction of that issue. The positive variation of the exchange was not in fact $18\frac{1}{2}$ per cent., but only about 10 per cent., the circulations of the two countries being of different intrinsic value, and the par of exchange between them giving a difference of $8\frac{1}{3}$ per cent. in favour of England. This variation, indeed, the Committee of 1804 did not hesitate to ascribe to the inordinate quantity of inconvertible notes sent into circulation by the Bank of Ireland; but I venture to think that, if my space permitted, I could show satisfactory grounds for questioning the soundness of that conclusion, which was moreover in contradiction to the nearly concurrent opinions of all the principal mercantile authorities of the period. It is by no means even clearly made out, that the difference of exchange was not a *real* difference, originating in a balance of payments due to England. But whether the difference was *real* or *nominal*, I consider that the abstraction of the whole mass of circulating coin from Ireland was an occurrence altogether independent of the exchanges, an inevitable consequence of the particular state of the law in England relative to the traffic in the precious metals, which, soon after the passing of the Restriction Act, had the effect of raising the local price of bullion there, even before the exchange between England and the Continent had given signs of a fall, while the transit of bullion from Ireland to Great Britain continued as completely unimpeded as from one part of England to another. The expulsion of the gold and silver coin prepared the way for the invasion of the silver notes, the I O U's, and

the base coins, of which I have given some account in a preceding chapter. And it is to the influence of this deluge of small money, and not to the augmented issues of the Bank of Ireland, that, after a pretty diligent review of the evidence, I am inclined to attribute the temporary elevation of prices. The value of a currency of inconvertible notes, however judiciously administered, cannot be long maintained, in concurrence with the rapid deterioration of the subsidiary currency of small money, representing the aliquot parts of the sums expressed by the notes. The Bank of Ireland, no doubt, like the Bank of England, greatly enlarged its issue of notes after the suspension of cash payments. But I nowhere find it alleged, that the additional issue was out of proportion to the stock of coin which it had to replace. The principles on which the Bank of Ireland administered its issues, appear in no respect to have differed from those acted upon by the Bank of England; the regularity of the reflux seems to have been equally provided for; nor, except in so far as the state of the small currency in Ireland or other extraneous influences may have tended to disturb the results, is there any apparent reason, why the movements of the one scheme of circulation should have been more eccentric than those of the other. And the *dénouement* was entirely confirmatory of this view of the case. By an act which took effect from the 1st of January 1805, the future circulation in Ireland of any notes or other transferable engagements for the payment of sums under the value of 20s., was strictly prohibited, and the Bank of Ireland was required to take measures for replacing the currency thus proscribed with a provisional coinage of silver tokens; the system on which the Irish treasury had hitherto drawn for the amount of the loans raised annually in England for the Irish service, and which had been found to operate disadvantageously on the exchanges, was placed on a better footing; and, by the gradual extension of private banking in the north, the

separate system of metallic circulation which had been so long maintained in the linen districts of Ulster, and which had contributed, with the state of the exchange between Dublin and London, to keep up a perpetual drain for gold on all the rest of Ireland, was, in a short time after, superseded by bank-notes. These measures brought all into harmony immediately. The exchange with London fell nearly to par in the early part of 1805, and rarely afterwards deviated more than 1 or 2 per cent., never, I believe, more than 4 per cent., from that level during the continuance of the restriction. From this time, we hear no more charges against the Bank of Ireland for special acts of over-issue.

There was, indeed, as pointed out by Sir Robert Peel, a temporary reduction of its issues from about 3,000,000*l.* to 2,410,000*l.*, between June 1804 and January 1806; which afforded the Committee of 1810 an opportunity of assuming, that the Directors had profited by the lecture administered to them by the Committee of 1804, and that the restoration of the exchanges had been the direct consequence of their (the Directors') *efforts* to contract the note circulation,—as if such a thing had ever been heard of as that the Directors of a Bank should, for a series of years together, permit themselves to be guided by such precepts, unless imperatively seconded by the course of the public demand. The Committee, however, do not take upon them to affirm—though they are not slow to insinuate—that this temporary defalcation of 590,000*l.* in the issues of the Bank of Ireland may not, to some extent, have been compensated by the increasing circulation of the new country banks; and they find themselves under the necessity of admitting, that, before 1810, the Bank of Ireland issues had rallied again to three millions and upwards, without producing the least reaction in the exchange between Dublin and London, which in the three first months of that year was at par.

All this, however, is wide from the point. As the

case of the Irish over-issues has been so particularly insisted upon, I have been anxious to show how much it has been misunderstood. But it is quite sufficient for my present argument, that in 1804 the Irish currency was inconvertible, and can furnish therefore no illustration in the least applicable to the question under discussion.

But Sir Robert Peel refers, in further vindication of his measure, to some supposed cases of excessive issue in Scotland. "An unfavourable state of the exchange," he says, "between Scotland and England has been more than once corrected by a contraction of the paper circulation of Scotland." It may be so. But, in the course of my inquiries, I certainly have not lighted upon any instance to which this observation would correctly apply, except the famous case of the optional notes, which happened during the period immediately following the Seven Years' War, and which I have little doubt is one of the cases, and probably the only case, to which Sir Robert Peel alludes. At the time in question, the bankers in Scotland adopted the practice of inserting in their promissory notes—which then, as now, constituted almost the sole currency of that division of the island—a clause reserving to the issuer the *option* of either paying the note on demand, or at the end of six months from that date with interest at the legal rate. This practice was continued for some years; and its necessary consequence was, not perhaps absolute depreciation, (for that was likely to have been prevented by the surplus notes being taken off by capitalists for investment) but such a complete exclusion of the community from all access to the precious metals, as must have deprived them of all means of correcting their exchanges. The exchange between London and Dumfries fell to 4 per cent. against Dumfries, at the same time that it was at par between London and Carlisle; and the results altogether proved so inconvenient, that it was thought necessary to prohibit the practice by the act of

1765.* And this is another of the analogies, is it, which is to instruct us in the necessity of placing a re-

* If a cause can acquire any new strength from the weakness of the efforts of its adversaries, that espoused by Mr. Tooke ought at present to be rather in a thriving way; for I do not think the exceeding imbecility of some of the recent attempts to grapple with his argument has often been surpassed. It was once my purpose to have undertaken a detailed analysis of Sir William Clay's and Colonel Torrens's publications. But the limits which I originally prescribed to myself have already been far exceeded. To follow these authors through all their doublings, would require an additional space equal probably to half the present volume; and I gladly therefore absolve myself from a task, which I could scarcely have hoped to perform with candour, and at the same time without offence. Besides, I believe it to be quite unnecessary. As far as I have been able to discover, there really is scarcely a point of any importance in either work which, in some shape or other, my argument has not already anticipated. Of Sir William Clay's style of reasoning I have introduced some specimens to my reader, which are not, I fear, likely to excite in him much desire for more. Colonel Torrens's work came later into my hands, and I have not had the same occasion to refer to it. It is the more ingenious production of the two, but I cannot say I have found it more conclusive. Perhaps, however, I may not be a very competent judge of Colonel Torrens's argument; for I must candidly acknowledge, I have not had the courage to follow him through all that maze of hypothetical cases, with which he rejoices to illustrate his favorite notions, as to the multiplication of the purchasing power by the intervention of certain banking forms, and through which he is wont to drag his readers with so little mercy or compunction. I have once or twice before endeavoured to make my way through one of these labyrinths, but got so little for my pains, that I am rather disinclined to repeat the experiment. Besides, I must confess, the relevancy of these illustrations to the argument in hand is not always very apparent to me. Upon the whole, therefore, I believe I may very safely leave Colonel Torrens to the tender mercies of the 'Westminster' Reviewers, who have favoured the world with a very able dissection of his pamphlet, in an article which gives favourable indication of the progress, which a better order of opinions on these subjects is at length making among men of information and intelligence. Colonel Torrens has since published a rejoinder, much in the style of his original pamphlet. And we have likewise, within these few days, been favoured with a second edition of Mr. Jones Loyd's 'Thoughts on the Separation of the Departments of the Bank of England,' with a new preface.

I do not find in the last-mentioned publication any addition of importance to Mr. Loyd's former arguments. I am glad, however, to

straint on the convertible issues of the Bank of England? Really, to anticipate any effect from illustrations

take the opportunity of adverting to one of Mr. Loyd's statements, which, from the manifest contradiction between its premises and its conclusions, I had always looked upon as carrying with it its own refutation, but which, from the favourable manner in which it has been noticed within these few days by an eminent and influential journal, would seem to be, nevertheless, calculated to produce some impression on the public mind. Mr. Loyd has thought fit, both in this pamphlet and in his evidence before the Committee of 1840, to contrast the history of the drain of bullion which the Bank sustained between May 1830 and May 1832, and the drains of 1825, 1833-7, and 1838-9, and to ascribe the facility with which the first-mentioned drain was brought to a termination, without any commercial distress or discredit, to its having been "*met*" on that occasion by a contraction of the Bank's circulation; whereas, in the other three cases, he says, "the paper circulation was rather increased than diminished." Now it cannot, I presume, be unknown to Mr. Loyd, that the drains of 1825, 1833-7, and 1838-9, were drains originating in commercial causes, whereas the demand for gold in 1830-2 was a demand from panic. It commenced in 1830 from abroad, in consequence of the political convulsions and worse forebodings on the Continent inducing merchants to countermand their orders and give money a preference to goods; and this was followed by an internal demand, originating in a like political discredit in this country, the result of the agitation produced by the Reform Bill, and which did not reach its acme till the spring of 1832, after the foreign exchange had not only been completely restored, but gold was flowing back again in large quantities. This drain was unprecedented and unaccompanied by any commercial excitement, by any speculation or rise of prices. On the contrary, the unexampled dulness of trade and stagnation of industry were the universal theme of complaint among merchants. The gold was withdrawn from the Bank, not to be launched out in foreign purchases, but to be locked up or buried in the earth. If no over-trading, then, nor undue augmentation of prices existed, how was it to be expected, that there should have been any general embarrassment or distress from their recoil? If, by saying, that this drain "*was met* by a contraction of the currency," it be meant to imply, that the Bank, on the occasion in question, adopted any positive measure of resistance at variance with its practice in the other three cases on which Mr. Loyd animadverts, the assertion is wholly unwarranted. The Bank was entirely passive on the occasion; and, if it did not re-issue all the notes which were sent in for gold, it was simply because the public did not call for them, because the very same circumstances, which at this time had been spreading distrust of all existing institutions, and

like these, is presuming somewhat far on the ignorance of those to whom they are addressed.

Another topic, which has also been much alluded to in the course of these discussions, has been the disastrous results of the banking system in the United States of America; and no topic certainly could well be more unfortunate for the argument of those, who desire to substitute a more diffused use of the precious metals in the circulation of this country, in the place of the now existing system, which tends to the concentration of the reserves of gold in the hands of a single presiding body. I take it, in the first place, to be altogether a gratuitous

inclined men to convert their property into specie, had also been paralysing trade, and restricting the frequency of transactions requiring the aid of specie. The Bank continued, throughout the whole crisis, to discount as freely as usual all the good bills which were brought to it for discount; and we have the express assurance of the Governor, Mr. Horsley Palmer, that, "for eighteen months or two years previous to 1832, the Court had taken no measures for contracting the circulation." [See Report of the Committee of 1832 on the Bank of England, p. 22.] Whatever difference of opinion there may exist as to the proper method of treating a drain of specie, so long as there may be the least colour for attributing it to a depreciation of the circulating medium from excessive issue, I am not aware that any one has ever presumed to contend, that a run for gold, caused by internal panic or distrust, would be likely to be stopped by the Bank suspending its discounts. And, while I quite agree with Mr. Loyd that the circumstances connected with the crisis of 1832 furnish a most instructive lesson as to the right method of treating drains of the precious metals, I am bound to say, that the lesson which I draw from them is nearly the reverse of that inculcated by Mr. Loyd. I value it not, certainly, for any testimony which it affords of the advantage of meeting every drain of gold indiscriminately with a contraction of the Bank's issues, for it presents us with nothing to which I can consider the term "contraction" applicable at all; but I value it as demonstrating, with how little shock to the even tenor of affairs a great crisis of this kind may, under certain circumstances, be surmounted, by the simple abstinence of the Bank from any officious or violent interference, or any attempt to withdraw its issues from the control of the public demand, and for the striking contrast which it suggests to our apprehensions, of the very different results which might have followed, had the Bank on this occasion administered its issues according to the principles advocated by Mr. Loyd.

assumption, that the banks of the United States contributed to the commercial disasters of that country chiefly by the excesses of their circulation, instead of the more obvious and undeniable agency of their unlimited facilities of credit. But no person, who has given any attention to the evidence respecting the state of the American paper circulation, will venture to affirm, that, even previous to the universal and spontaneous suspension of cash payments in May 1837, that circulation was really and practically convertible. The system wanted, in the first place, two of the indispensable conditions of perfect convertibility, namely, a single and properly regulated national metallic standard, and, secondly, a limited subsidiary currency of small money issued by authority. In the United States, they possess in fact no metallic standard whatever, or at least they possessed none previous to their large recent coinages of gold. Almost every coin under heaven is a legal tender there, at a certain rate fixed by tariff; and, not very long ago, the quantity of foreign gold in circulation there, was supposed to be as nine to one in proportion to the circulation of their own eagles. The effect was, that the bankers, when required to cash their notes, paid them in the coin which, for the time, was cheapest; and parties requiring a supply of Spanish dollars, the very money in which they keep their accounts, for transmission to India or China, could not procure them from the banks, but had to buy them in the market at a premium seldom under 1 or 2 per cent., and which has been known to rise even to $7\frac{1}{2}$ per cent. But, in fact, the banks of that country were, in a manner, virtually protected from demands for coin by the peculiar habits and ideas of the people. It was a point, we are told, so universally understood, that bankers ought not to be called upon for any payments in cash, which might have a tendency to cramp or limit their usual accommodations to the public, or might have any object beyond the mere convenience of fractional payments, that, however much

a man might be in want of a sum in specie for exportation, he would be deterred from applying to a bank for the supply, from the fear of becoming a marked man in society. Then the wide-spread practice of issuing dollar notes, half-dollar notes, and even quarter-dollar notes, introduced another element of depreciation, somewhat similar to that which existed in Ireland in 1804, and which must have been still more pernicious in a thinly-peopled country like America, where those small notes would so frequently be liable to be cut off altogether by distance from the places of their origin. To crown the whole,—for some time previous to the last suspension of cash payments in America, the banks there had fallen into the habit of advancing to the merchants in post-notes at four, six, and eight months' date; thus adding to the small-note abuses of the Irish, the evils of the optional-note system of the old Scotch bankers.

Mischievous, however, as all this was, it is not to any of these circumstances, either singly or taken together, that, in my judgment, we are entitled to attribute the catastrophe of the general suspension of cash payments in America. That event, and all the derangements which flowed from it, might have been prevented, and in all reasonable probability would have been prevented, had the bullion, which, by a most absurd law, was scattered in detached hoards over the whole country, and of which all banks were compelled to provide themselves with a share, without any consideration as to whether their situation was inland or maritime, whether they had only to supply with coin the trivial demands of an agricultural district, or were likely to be called on for large sums in specie for remittance to foreign countries,—had this stock of bullion been all collected into the coffers of one great establishment, charged with the responsibility of maintaining the general solvency. The *commercial* crisis would not have been averted in that case more than in the other. After such a course of flagrant over-trading, there was nothing in the chapter of events which could have saved the nation from extensive bank-

ruptcy and ruin. But there would, probably, have been no necessity for the addition of a *monetary* convulsion to the other calamities of the period.

When the separation of the Bank of England into two departments, one for the purpose of issue, and the other for general banking, was first suggested several years ago in some of the controversial pamphlets of the day, my impressions of the scheme were, I own, anything but serious, or anticipatory of the high destiny to which it has now been elected. It struck me at the time, as nothing more than one of those harmless contrivances, by which certain people take pleasure in deceiving the world and themselves into a belief, that they are accomplishing feats of vast importance, when in reality they are doing nothing, and which are familiar to us all by the name of charlataneries. The plan obviously effects nothing which, if the object were desirable, might not be equally well effected by simply restraining the Bank from making any issue of notes in excess of the sum of fourteen millions, except upon the deposit of an equivalent amount in the precious metals, without all the parade, complication, and costliness of this two-sided establishment,—one side all compliance and courtesy, the other stern and inexorable as destiny. I fear, however, I was unjust in affixing to this scheme the imputation of innocence. Formalities of this sort may sometimes be so contrived as to render what was plain intricate; and, like the deed of covenant which gives legal validity to an improvident agreement, they are apt to impart greater precision to whatever is mischievous, and to render redress less accessible by the formal obstructions which they oppose to every measure of correction.

Such, I fear, are the results to be apprehended from the present project. So long as the stock of bullion in the Bank continues to bear so large a proportion to the securities as it does at present, so long as the sea remains calm, and the Bank is exposed to no extraordinary or sudden demands, all may go on tolerably well.

Eight millions in the banking department ought to go a good way as an available reserve. But we have no reason from past experience to expect, that the present state of things is to last for ever. A decline of the gross stock of bullion to seven millions—and there is nothing in the scheme of the two departments to prevent it—would be no very excessive fall; and it is quite consistent with experience and probability, that the demand for circulation might all the time remain unaltered. Now, with a circulation of twenty-one millions, and a reserve of seven millions, the entire stock of bullion would be absorbed in the issue department, and there would not be a shilling left for the banking department. Whatever notes were brought in by depositors would be so much deducted from the circulation, and would leave a void to be supplied by some less convenient expedient.

The framers of the bill, indeed, would appear from their arrangements, to have confined their view exclusively to that portion of the bank-note currency which is in the hands of the public, and which alone is included under the head of circulation in the periodical returns, and to have supposed, that by taking the present actual circulation of twenty-one millions as their average, and making a reasonable provision for the continuance of a circulation on that scale, they were doing all that was incumbent on them, without considering that, under the new system, there will be required, in *addition* to the amount of notes in the hands of the public, a separate and large supply for the reserve of the banking department, either in notes which must constitute part of the aggregate issue to which the issue department is restricted by law, or, what is the same thing, in coin, which would otherwise have gone to the issue department, and have constituted the basis of an additional issue of notes. To maintain at the same time a circulation of twenty-one millions for the public, and what is ordinarily considered a safe reserve in the banking department for deposits to the amount of nearly fourteen millions, as at present, would

require an issue of about twenty-six millions of notes. Unless, therefore, the framers of the bill contemplate a forced reduction of the circulation below the present level, they must calculate on their ability to keep up a permanent stock of at least twelve millions of bullion, an assumption for which I need scarcely say experience furnishes no warrant.

Any one, indeed, who will take the trouble of looking back to the periodical statements of the Bank's liabilities and assets for ten or fifteen years past, will discover that, in most instances, the balance of gold, which would have remained in the hands of the banking department had the assets been distributed according to the principles of the new system, would not generally have exceeded one, two, or three millions. Taking the cases at random, I find that, on the 8th of November 1836, the stock of specie in the banking department would have been 1,269,000*l.*, covering deposits to an amount exceeding twelve millions; and on the 30th of July 1839, the department would have been actually bankrupt to the extent of 1,759,000*l.*, with deposits standing against it of eight millions and upwards. In such emergencies the banking department could only have maintained its solvency by extensive sales of its securities, a large abstraction of paper from circulation, and a violent action on credit. And, surely, it is but a preposterous and hopeless enterprise, to think of committing to an establishment, with resources so cramped and limited, the management of our enormous public debt and revenues, requiring occasionally extensive advances on deficiency bills,* with dividends to the ave-

* (*Note to the Second Edition*).—My attention has been lately drawn by a gentleman of much experience and intelligence on these subjects, to one very remarkable fact in the history of drains of specie originating in a failure of the corn harvest, which has not before, I believe, been brought into prominent notice, namely, that the drain in such cases is always preceded by a considerable reduction of the amount of the Government deposits in the hands of the Bank of England, and,

rage amount of some seven millions to be paid quarterly, and continually exposed to the risk of an adverse exchange and a drain of bullion, in coincidence possibly with one of those periods. To organize anything like an effective, safe, or profitable bank of deposit, fairly equal to such an undertaking, the command of a circulating medium on a much more extensive basis of credit, and much less dependant on the variations of the exchange than that allowed by the bill, appears to me to be an indispensable condition, however irreconcilable it may be with the principles (the false principles, as I conceive them to be), by which the framers of the bill profess to have been guided.

Some of the above observations are strongly confirmed as a necessary consequence, an extraordinary call on the Bank for increased advances on deficiency bills. This fact was strikingly exemplified in 1839, when a decline of several millions in the Government balance was the first indication of the approaching revulsion in the money market. The circumstance is very interesting in itself, as an illustration of the social consequences of any considerable deficiency in the home crops of wheat. Nothing can be more clear in theory, than that the disproportionate rise of the prices of corn, which has been found the invariable accompaniment of every alarm of famine, must occasion a reduced consumption of all taxed commodities. A falling off, therefore, in the receipts of the Exchequer, a consequent diminution of the ordinary payments into the Bank of England on Government account, and an increase of the deficiency bills, are precisely in the order of results which one would anticipate *a priori* from the calamity of a scanty harvest. In the actual state of the commercial horizon, the only circumstance which appears directly to threaten an early turn of the exchanges, is the disposition to extend our investments in foreign railway schemes. And, should an adverse balance of payments be the consequence of those speculations, it is possible that our next monetary crisis may come upon us without any preliminary warning from a decline of the revenue. But it is also to be remembered, that a dearth of corn is an accident at all times upon the cards; and ministers will do well to mark, that no such dearth can subsist without more or less impairing the public revenue, and that, whenever the Bank shall, by the operation of the new act, be compelled to suspend its advances in consequence of a drain of gold for the purchase of foreign corn, the Government is the first party whose payments are likely to be embarrassed by the proceeding.

by the ingenious calculations of Mr. Pennington, published in Mr. Tooke's Appendix, which show that, under the proposed new constitution of the Bank, even a very moderate demand for gold might occasionally have the somewhat absurd effect of reducing the banking department to a suspension of payments, at the very time that there might be six millions of specie or more in the coffers of the department of issue. Mr. Pennington's statements have now been so long before the public, that I do not think it necessary to recapitulate them. I am not aware that they have ever been refuted; though, as forming part of a controversial correspondence on the subject between Colonel Torrens and Mr. Tooke, it may be inferred that, if they had admitted of refutation, it would not have been withheld.*

I cannot quit this branch of the subject, without adverting to one feature in Sir Robert Peel's measure which seems so much at variance with its general spirit, that, when first brought to my notice, I own it struck me with some surprise. Sir Robert Peel leaves to the banking department an uncontrolled and unlimited power of issuing bank-post-bills at its discretion. Now bank-post-bills constitute, I believe, about one-twentieth part of the general Bank of England circulation, and are included as such in the present returns. Though seldom seen in London, they circulate to a very considerable extent in the provinces, and I have seldom received a payment in Bank of England currency anywhere at a distance from London, in which some bank-post-bills have not been included. I own, I cannot exactly perceive the grounds, on which this peculiar branch

* Colonel Torrens refers, in his late publication, to these statements of Mr. Pennington, for the purpose of taunting Mr. Tooke with a difference which he assumes to subsist between Mr. Pennington's opinions and those of Mr. Tooke, on the general principle which ought to regulate the currency, notwithstanding their agreement as to the expediency of separating the functions of the Bank of England; but he says not a word in reply to Mr. Pennington's argument.

of the currency should have been so peculiarly favoured, unless it be that bank-post-bills are not "money,"—a consideration certainly which must be supposed to have weight with every disciple of the currency school. Sir Robert Peel, however, shows no disposition to be equally indulgent, with respect to the bill issues of other banks; for he threatens the joint-stock banks in the metropolis and within sixty-five miles thereof, with the instant intervention of Parliament, if they shall abuse the privilege very properly conceded to them for the first time by this act, of drawing and accepting bills of exchange not payable to bearer on demand, by issuing small bills of that description for circulation. I own for myself, that I have never been able to perceive the evil effects of this bill circulation, where a circulation of higher quality is not to be had, and am inclined rather to believe that Lancashire had a safer and a better currency, for a great commercial district, in her bills, than she enjoyed during the first period of the reign of the joint-stock banks.* It may be possible, certainly, to deter, by fear of the consequences, the joint-stock banks in London and its neighbourhood from making payments over the counter in their own bills; but it will not be found so easy to prevent the holders of their bills or acceptances, when issued, from employing them as substitutes for money, if driven

* (*Note to Second Edition.*) I have never been able to understand, why the partisans of the currency theory should object so vehemently to the substitution of bills of exchange for bank-notes, when they maintain that the former have none of the effect on prices ascribed to the latter. One would think that a currency so qualified would be the very currency to suit them. Say, that the Bank of England should dispense with its circulation of bank-notes altogether, and issue nothing but bank-post-bills, here you would have a currency, which, I am sure, would be adequate to all public purposes, and perfectly satisfactory to all persons entertaining the opinions advocated in this work, and yet which would not be "money," would not influence prices, nor through prices derange the exchanges! Ought not this then to be the very *beau ideal* of a currency in the eyes of these gentlemen?

by the measures of Government to that course. That the power of issuing bank-post-bills committed to the banking department of the Bank of England might also, by a little of concerted action between the Directors of the Bank. and the bankers of the metropolis, be turned into an instrument for frustrating to a great degree some of the principal objects of the ministerial measure, seems to me sufficiently apparent. But the Directors act under the immediate eye of Government, and will be naturally cautious of engaging in any line of conduct which will be likely to incur its displeasure.

CHAPTER X.

Difficulty of restraining the Excesses of Banking Credit by Legislation—Objectionable position in which the Banking Department will be placed by the effect of the New Bill, and its Dangers—Interest and Prices, how likely to be affected by the New System—Necessary Limits of the Supply of Gold—Effects of the Rule which restrains the Bank from advancing on Securities more than two-thirds of any additional Circulation which it may be called upon to supply in substitution for Country Notes, and of the limitation of the present Country Issues—Demand the regulating principle of Issue—Absurdity of maintaining a Stock of Bullion which is never to be used—Tendency of the New Bill to relieve the Hoards from the pressure of Drains, and throw it on the Circulation; and peculiarly unprepared state of this Country for such a change, owing to the want of *Private Hoards*—Undesirable that the Bill should have left a discretion to Government to enlarge the Circulation on Credit—Minor Enactments relative to Private and Joint-Stock Banks—Of the respective Claims of Scotland and Ireland to retain the Privilege of Issuing Notes under Five Pounds—Proposal for improving the efficiency of the Direction of the Bank of England—Question as to the yearly Allowance required to be paid by the Bank to Government—Expedients suggested for Economizing the use of Gold—Conclusion.

It has been among the most unfortunate consequences of the false importance which has for some time been very generally attached to the fluctuations of the bank-note circulation, that men's minds have been distracted from a subject, which much more intimately concerns them, and is capable of entailing far more extensive evils,—I allude to the imprudent and reckless facility, with which banks are occasionally found, especially when brought into sharp competition with each other, to launch out both the capital intrusted to them by others and their own, for very injudicious purposes and on very insufficient security. Men's eyes are kept constantly fixed on the *issues* of banks; as a check on those

issues, their amount is required to be regularly laid before the public ; and the prudence and solvency of an establishment is judged frequently from the moderate extent of its issues ; whereas, if the truth were known, a moderate scale of issue indicates nothing more, than that the bank has only a moderate share of the general banking business of the country. The nature of the enterprises, in furtherance of which those issues are put forth, and the security which the banker holds for their punctual return, are really objects of far deeper concern, not only to the parties immediately interested, but to the public in general, than the specific amount of the share which each banker enjoys of the note circulation. "Look carefully to your securities ; and beware that you never incur responsibilities out of proportion to your available capital." These are the golden rules for the banker. While he observes these rules he may, with perfect safety both to the public and himself, leave his issues to take care of themselves. And had these rules never been departed from, I am persuaded that, whatever might be the vicissitudes of credit or the derangements of the money market, it would not be to the *issues* of bankers that we should have any right to attribute them.

Were it possible, by any legislative proceeding, to restrain effectually the errors and extravagances of credit, that would be the true course to a really beneficial reform of our banking system. But these errors and extravagances are unfortunately rather beyond the pale of legislation, and can only be touched by it incidentally, or by a sort of interference, which would be more vexatious and intolerable than even the evil which it sought to correct. You only make the law hateful and powerless, by attempting to regulate by law everything that is wrong. Though little, however, can be done by law to correct the abuses of banking accommodation, opinion might effect much, if opinion were brought more effectually to bear on the iniquities and mischiefs of a loose system of banking credit, and the public were made to

understand, that there are other departments of the banking business, besides that of issues, in which they hold a deep and unavoidable interest. And the less the legislature may have it in its power to accomplish for the repression of this class of delinquencies, the more should it consider itself bound to refrain at least from any measure tending to abet or encourage them.

The more immediate object, however, which I have in view in offering these observations, is to direct attention to the very objectionable and injurious position in which the banking department of the Bank of England will be placed by the operation of the new system. It is the avowed result of the scheme, that the banking department, from the moment of separation, is to be relieved from all charge of the public interests, and to be at perfect liberty to employ to its own best advantage the funds intrusted to it, just as any private banker would do. This is the universal understanding in the City. The scale of the Bank's future profits has been very much restricted by the plans of Government; and the Directors owe it as a duty to their constituents, to compensate as far as possible the sacrifices to which they have been obliged to submit, by turning to the best possible account the advantages which remain to them. Sir William Clay is of opinion, that "the Bank, in its banking department, would be precisely in the same position as all other bankers, bound to take the same precautions and to make the same preparations for demands on the part of its depositors;" that, "in some respects, it would be less exposed to such demands, inasmuch as, being the banker of the state, the Court of Chancery, and other great public establishments, and having, in proportion to the extent of its business, fewer mercantile accounts, it would be *less* called on probably for notes for the purpose of being exchanged for specie." And he is not aware of any reason why, in the supposed case of a drain, the demand for notes to be exchanged for gold should not be *equally divided* among all the

bankers of London and the great commercial towns !” * Sir William quite forgets, that most of the great bullion-dealers, bankers, and other capitalists, who usually have occasion to exchange notes for bullion with a view to sending it abroad, are in the practice of keeping their funds with the Bank of England, and of drawing out the gold they want through the deposits ; nor is there the slightest reason for supposing, that this practice would be changed in consequence of the division of the departments. Merciful powers ! The idea of a drain of gold being *equally divided among all the bankers of London and the great commercial towns !* ! But let that pass. The Bank parlour is understood to participate, and it is natural that it should, in the same views. For some time past, as we have seen, the Bank of England may be said to have been making no interest at all on its deposits ; for the whole amount of securities held by it falls short of the aggregate sum of the circulation and rest taken together. It has hitherto had a great duty to perform ; and in the recent low condition of the money market, with the rate of interest reduced to 1½ per cent. for advances on stock, and consols at 100, it could not have gone into the market as a purchaser of securities, without bringing on itself a torrent of reproaches, and being told that it was inundating the country with its notes, lowering prices, and menacing half the community with ruin. The banking department, however, will have no such scruples. The currency being safe under the administration of the department of issue, the banking department will have nothing to care for or to do but to follow its own devices. What the right hand is prohibited from doing, what both hands together durst not do, the left hand is to do freely, and without the least apprehension of consequences ! So that, in all time to come, by the effect of this admirable invention, which is to preserve the equilibrium

* See Sir William Clay’s Remarks, &c., p. 69, 70.

of the currency under all circumstances, and to maintain prices and interest always at their just level, whenever the market is overloaded with unemployed capital, whenever the market rate of interest is at its extreme ebb, and things are rapidly verging to that condition, in which all sorts of insane projects and speculations find their proper soil, and spring up in luxuriance,—this giant monopoly, to which the public has heretofore been accustomed to look up in such difficulties for forbearance and support, is to throw its weight into the downward scale, to join in a competition for securities which is already overwhelming, and to aggravate to the utmost limits of its power all the influences which usually precede and produce commercial convulsions !

Nor would this be all ; for you would now have run into the very danger which has been haunting your dreams, and which all this apparatus of departments has been conjured up to avert, but which, up to this moment, has never been practically realized—I mean the danger of *over-issue*. I know not what proportion of the securities at present held by the Bank may consist of bills of exchange or other engagements payable at short dates. But under existing circumstances, I apprehend it must be very small indeed ; and there can be no doubt that it would very soon disappear altogether, and that application to the Bank for accommodations of any description would entirely cease, were the banking department to proceed in the career which has been sketched out for it. Thus the channel of reflux for any excess of notes delivered to the public would be effectually cut off ; the whole currency would be turned into a permanent advance on permanent securities ; even prices might be endangered, were it possible that such a state of things could continue for the necessary length of time ; and there could be no relief, at all events, till the almost total impracticability of making interest on capital in this country should operate on the exchange, and a demand

for bullion should compel the Bank to sell its securities and draw back its notes. Thus the only result of your separation of departments would be, that, in the single case in which the Bank's power of issue was ever susceptible of abuse, the new banking department would retain the power in its full extent, without that moral restraint which has hitherto prevented its improper exercise. Such are the inextricable crosses which beset every attempt to legislate on false principles.

It is to be further remarked, that the necessity thus imposed on the banking department of keeping its funds at all times more or less fully invested, without any reference to the state of interest or to the existing demand for capital, must have the effect of very much disabling it for the performance of what has hitherto been considered the duty of the Bank to the public in times of difficulty and pressure. Instead of having its resources at liberty for such occasions, when those resources might be turned to account for the general advantage, the banking department is more likely to be found cramped and powerless, participating in the prevailing distress, and obliged to force its securities on the market in order to provide for its own engagements to its depositors; and this we shall discover, whenever the present stock of bullion shall be materially reduced. Violent and sudden fluctuations of the market rate of interest are among the most obvious results to be apprehended from this system,—a system which deprives the Bank of the free use of its own reserves, and leaves to it no other alternative but either to renounce at once all expectation of making a reasonable profit on its capital, or to live thus, as it were, from hand to mouth, trusting to the sale of its securities for the means of meeting every unexpected demand. I can conceive few things more harassing or intolerable than such a continually recurring action and reaction on interest by a powerful body like the Bank of England—an action and reaction too, operating most inconveniently at the least opportune

seasons, and exacerbating alike the severity of the rise and of the fall.

The growing uneasiness, however, which, since I commenced this treatise, has been perceptible in the commercial circles, as to the probable operation of the Government measure, has been with regard to its action on prices rather than on interest. It is apprehended, that the diminished supply of notes to the public, which must be inevitable, if the banking department shall be condemned to work its deposit transactions, and to make large advances besides for the public service whenever occasion requires, with an average reserve of scarcely two millions of currency, will effect a permanent reduction of the scale of prices. If I have been fortunate enough, however, to make my views intelligible as to the principles on which fluctuations of price depend, it will be obvious, that in this apprehension I cannot join. I regard it as an apprehension springing out of the errors of the currency doctrine; and find it impossible to imagine any derangement of the credit circulation of the country, which could have the effect of altering permanently, if at all, the relative proportions of value between gold and commodities, as determined by the cost of production of each respectively. A diminution of the note circulation to one-half of its present amount could only so far operate on prices, as the manner and time of the reduction might more or less act upon credit. Its effect would be, to set every person connected with the higher transactions of commerce on the alert for the discovery of the most convenient substitutes; and until that should be settled, the embarrassment and confusion that might ensue can scarcely indeed be appreciated.

It may be fancied, that the void would be filled up by gold. Ministers appear to entertain the idea, that, by limiting the issue of notes beyond a certain sum to advances on bullion, they will succeed in enlarging the metallic basis of the currency. But whence, is it supposed, that this additional supply of gold is to be procured? There

is no quantity worth naming to be had at any time in the home market. We know, from the best authorities, that the bullion-dealers in this country are never in the practice of keeping any stock on hand. They are content with their small fractional profit, and desire only to get rid of the metal as fast as it arrives. Such a thing as buying gold on speculation, and retaining it with a view to a future sale at an advanced price, has never been heard of since the Bank resumed its payments in gold. And indeed the very idea of such a speculation must appear an absurdity, when it is considered, that all but the most trivial fluctuations of price * are prevented by our Mint regulations. Is the new supply, then, to be drawn from the currencies of surrounding nations, whose currencies are almost exclusively of silver, or from the sealed treasuries of monarchs, or from the plate preserved in churches and ancient mansions, or from the buried riches of Asia? From such recesses, I suspect, it will be rather hard to extract it. There is, indeed, a large stock of the metal which is in a course of continual transit from one country of Europe to another, and of which the movements obey readily every impulse which it receives from the exchanges. That stock, as I have said, is in the hoards of the great bullion-merchants and other capitalists, and in the banks. But there must be some limit to its amount. The recent influx has already greatly exceeded the proportions of any previous influx; owing, probably, to the accession which the general stock of gold in the world has recently been receiving from

* It is only indeed by reason of the loss of interest to which the importer of bullion is exposed, during the detention of his gold at the Mint, and the occasional degradation of the coin by wear, that even those trivial fluctuations of price are possible. Were the coin at all times in a perfect state, and were the Bank in the practice of issuing coin at all times in exchange for bullion on delivery, there obviously could be no such thing any longer in this country as a difference between the market and Mint price of gold. The exchange, then, of the bullion for the coin, at the Mint or Bank, would be merely the exchange of one ounce of the metal for another.

the improved fertility of the Siberian mines.* And, were we to attempt to carry our demand for the metal much beyond this, we should only be able to procure it in very small quantities, and at a premium which would materially enhance its cost and render its further importation impossible.

Yet the Government appears to act on the assumption that gold can be procured *ad libitum*, and seems intent only on creating wherever it can a void in the paper circulation, in order that it may be filled up with coin. In the event of any country banker discontinuing the issue of his own notes, and of the Bank of England being called upon to supply the consequent deficiency in the circulation, it is provided by the bill, that, with the sanction of Her Majesty in Council, the Bank in its issue department shall be at liberty to enlarge its issues upon securities, in a proportion equal to two-thirds of the country notes withdrawn. The remainder of the deficiency, if made up at all, must be made up by an advance on bullion. Now, there is no reason which can be alleged for insisting, in this case, on the substitution of gold or of Bank of England notes secured on a deposit of gold for one-third of the country circulation displaced, which might not with equal force be urged for discarding the entire credit currency of the country and replacing it with a circulation of the metals. It is computed, that the average issues of the country banks, joint-stock and private taken together, may amount in round numbers to about nine millions sterling. Supposing the whole of these banks (as may very possibly happen) to become desirous of availing themselves of the inducements offered to them by the Bank of England to discontinue their own issues, and circulate for the future only Bank of England notes, the Bank of England

* I just learn from the newspapers that a fresh importation of 600,000*l.* in gold has within these few days arrived from Russia, and that the mines of the Ural Mountains have yielded altogether in the past year a produce of no less than four millions.

would, upon that desire being made known to it, undertake to supply the banks in question with six millions of notes on the credit of certain securities, and three millions on the deposit of bullion. But no such thing has ever been known, as that a country bank should keep a reserve of gold equal to one-third of its circulation. Why should it? A country bank is never called upon to pay gold, except during a panic; that does not happen once perhaps in a quarter of a century; and, by keeping itself provided with a sufficient stock of securities, it relies on being always able, on any emergency, to procure at a short notice a sufficient supply of gold from London. Probably all the banks in question may not possess half a million of coin among them; and, by parting with that, they would leave themselves wholly unprepared to meet even the commencement of a run. It is clear, therefore, that the three millions of bullion could not come from the country banks. Whence then is it to come? A proportion of the gold brought in by the tide of the exchange, if that happened to be favourable, might be apportioned indeed to this particular head; but it would be merely so much deducted from the supply on the general account. All the gold brought in by the exchanges goes already to the Bank of England; the Bank of England is compelled to purchase all that is offered to it, so that there is never any relaxation of the demand; and not an ounce more would be imported, because of this extra call for three millions.

The Bank holds already in reserve the unprecedented stock of nearly sixteen millions of gold. And are we to assume therefore, as a matter of course, that the Bank has only to will the continued enlargement of this treasure, to ensure its increase to nineteen millions? The only probable effect, as far as I can perceive, of requiring under these circumstances deposit of gold for this issue of three millions, will be to throw the whole burden of the supply on the metropolitan circulation. The three millions of notes for the provinces

will be taken, most unjustly and unreasonably, from the twenty-one millions allotted to the metropolis and to the private and joint-stock banks previously dealing with the Bank of England. Then for what purpose, let me ask, are these three millions, if they can be procured, to be appropriated specifically to the country circulation? Is it intended that the money should be distributed among the treasuries of the branch banks? that it should be withdrawn from Threadneedle-street, where the treasury cannot be too full, and transferred to spots where it is totally useless? For any extraordinary supplies of coin originating in extraordinary occasions, these country banks will not be a whit less dependent on London after they shall have relinquished their issues of notes, than they have always been. It is the policy of the greater part of the English country bankers, as it is of the Scotch bankers, to keep their reserves in the metropolis; for, whenever any local variation in the rate of interest induces their customers to withdraw their deposits, it is not gold but bills on London that are called for. And it is the policy of the nation, that whatever gold is imported into this country should be placed under the custody of a single great public body in the metropolis, which knows or ought to know from experience what it has to provide against, and would have to stand the censure of the country if that provision were neglected. The experiment of dividing that responsibility, as I have observed, has signally failed in America. And the results there were aggravated and accelerated by the absurdity of compelling by law a false distribution of such share of the precious metals as the commerce of the country brought in, imposing upon every bank the necessity of providing itself with a stock of specie proportioned to its banking capital and business, without the least regard to the probable demands of the several localities for coin. Let us beware of falling into the same error.

In a similar spirit, though of comparatively inferior

importance in its practical operation, is that clause of the bill which restricts the future issues of the country banks to a sum corresponding with their respective average issues during a certain period antecedent to the 6th of May last. That period is now fixed, I believe, in a manner more satisfactory to the bankers, and permitting to them a greater latitude of discretion and action than the term originally proposed. But why should there be any limitation whatever? It may be a very fit subject of consideration, whether the privilege of issue is to be continued to private banks at all. Not that I am in the least disposed to acquiesce in the doctrine, which holds the issue of a convertible paper currency to be, like coinage, the proper business and prerogative of the state. Nothing can be more marked than the distinction between the two cases. The rule which limits the power of coining to the sovereign is founded on such obvious expediency, it is so clear, that, without the attestation of the royal stamp, and *that* protected from imitation by the severest penalties of the law, no metallic currency can ever be kept of an uniform standard, that the propriety of the restriction stands quite above question. But there are no such conclusive objections to the issue by individuals of bank-notes payable on demand. The bank-note is merely a form of credit: and I hold it to be indisputable, in point of principle, that every man *primâ facie* has a right to make use of his credit in the way that may be most convenient and advantageous to himself. I admit that, like other individual rights, this right must give way, when its exercise is operating prejudicially on the public interest. But the *onus* of showing that it is so operating, rests on those, who propose to disturb the exercise of the right, and must be clearly made out to justify their interference. That, however, is nothing to the present question. What I would venture to submit is, that so long as these societies and individuals shall be permitted to dispense the means of circulation to extensive tracts of country, there is no wisdom in cramping

the exercise of their privilege by any uncalled-for interference of legislation. We have seen, that, both in the agricultural and in the manufacturing districts, the quantity of money required for performing the different offices of exchange varies very much at different seasons and under different circumstances, and *that* on perfectly sound and just principles, and unconnected with any tendency to speculative excitement. I have never heard yet any tenable reason, why the necessities of the people in this respect should not be satisfied, nor why they should be driven to truck, and all sorts of pernicious expedients, when a good currency of local notes would answer their purposes with so much more of safety and convenience.

It is complained, that the country bankers do not regulate their issues by the exchanges; and, when it is shown to me, how the notes distributed by a country banker to the farmer, after the failure of a harvest, can affect the foreign exchange otherwise than by obviating the cause of all others most likely to disturb it, I may possibly think the complaint worth considering. But I have already said more than enough on this part of the subject. My own conviction is, that the amount of all convertible currencies finds a much more wholesome, accurate, and certain corrective in the public demand, than can be supplied by any Act of Parliament. The doctrine, I know, is obsolete. The words "demand," "legitimate demand," cannot be even mentioned in Parliament, in connexion with this subject, unaccompanied by a sneer, and when lately employed in debate by the member for Renfrewshire were received with "*ironical cheering*." Even so intelligent a gentleman as Mr. Hubbard does not disdain to cut a bad joke on the maxim, that "money should be provided at all times in proportion to the demands of the community," by observing, "that a prodigal, who exceeds his yearly income, would gladly find the means of realizing the theory."*

* See 'The Currency and the Country,' p. 25.

And Colonel Torrens too, in his rejoinder to the ‘Westminster Review,’* strains his ingenuity to the discovery, that the facts on this point adduced by the reviewer “amount to nothing more than this,—that there must be two parties to a loan—a party willing to lend, and a party willing to borrow”! Mr. Hubbard must surely know that the sort of demand which he speaks of, the demand of *want*, has no place in the vocabulary of political economy, the only demand to which that science has ever been known to apply the name being a demand for a good consideration. And, much as I fear I am disgracing myself by the avowal, I have no hesitation in professing my own adhesion to the decried doctrine of the old Bank Directors of 1810, “that so long as a bank issues its notes only in the discount of *good* bills, at not more than sixty days’ date, it cannot go wrong in issuing as many as the public will receive from it.” In that maxim, simple as it is, I verily believe, there is a nearer approach to truth, and a more profound view of the principles which govern circulation, than in any rule on the subject which since that time has been promulgated.

If I estimate highly the importance of keeping up a large stock of specie in the Bank of England, it is for the sake of the services which specie is capable of rendering. You choose to fix upon a sum of ten millions as the minimum of your reserve; and no doubt it is a satisfactory and desirable state of things when you have a treasure of ten millions or more between you and want. But it is exactly because your engagements expose you to the continual liability of being called upon for treasure to that extent, that you look with complacency on the fulness of the store. Could it be so ordered, that the causes, which at present subject you to demands of this description, could be made to cease; could an interdict be laid for the future on short harvests and costly wars, could men who are deriving an income of only 2 per

* See ‘Reply to the Objections of the Westminster Review,’ &c., p. 4.

cent. from their capital in this country be denied the liberty of transferring it to France, where it may be invested at an interest of 5 per cent., could it in fine be made a moral certainty, that no part of these ten millions shall ever be demanded of you, of what *use* would it be, I should be glad to know, to hoard up this money any longer? Why is it then, that, the moment your store falls below that level of ten millions, you are, without any inquiry as to the causes of the efflux, their intensity or probable duration, to suspend at once your customary accommodations to the community, except on the impossible condition (as in such cases it will generally be found to be) of the level being first restored? You abandon all rational motive for maintaining a stock of fifteen millions of bullion, when you resolve at the same time that more than five millions of the amount shall in no emergency ever be disbursed. As well might the governor of a fortress, who desired to keep his garrison at all times well provisioned, make it a law that, in no extremity of famine, should more than a third of the corn in his granaries ever be consumed. Yet this is the very principle, on which the American banks are required at all times to hold a given amount of specie in their coffers, and this is the wise example which we are now called upon to follow.

We are assured, that it is no part of the intention of the framers of the Government bill to diminish in any way the customary supply of the circulating medium; that their object is only to provide for its more certain convertibility into specie; and that, whenever more bank-notes are wanted for the use of the public, they may at all times be had, on depositing gold in their stead. This is certainly very considerate! When the metals are flowing steadily into the country—when we have those metals in abundance at our command to perform all the offices which bank-notes can perform—and when nothing more than a small point of convenience is to be gained by the substitution of the paper for the gold—then

the supply of notes is to be without restriction ! But those are just the periods when the indulgence is of no importance to us. It is when the current of the metals is setting strong in the contrary direction, when credit is tottering, when your banking department, instead of trying to mitigate or avert the crisis (if it be a crisis which fairly admits of being mitigated or averted), is itself struggling to preserve its own solvency, and is our keenest and most powerful competitor for a share of whatever circulating paper or coin is to be procured by the sale of its securities in the market,—it is then that your succours would be really valuable. Times have been known, when private credit has been for the moment so entirely paralysed, that I may say the solvency of the whole nation has seemed almost to depend on the Bank of England ; and had the Bank held back in such emergencies from interposing, her own destruction would have been among the most probable consequences. Such was the state of things in the catastrophe of 1825 ; and we all remember, by what means the spread of ruin on that occasion was arrested. At such periods, it is a mockery to tell me, that I may get bank-notes if I will bring gold. When I am assured, that the pressure on the market at times like these will ensure a favourable turn of the exchange, I never can forget the signal failure of the most memorable effort of sustained monetary pressure on record, I mean that made by the Directors of the Bank of England, and continued by them for two years, in 1795-7, with most severe effects on the welfare of the mercantile community, but none whatever on the drain of bullion. Remembering this, I cannot place very implicit trust in such assurances. You cannot bring gold from the spot to which the tide of gold is flowing, but by adding to the foreign debt which the gold goes out to discharge ; and I believe, as I have said, that, in all such cases, until the exchange turns, the recovery of any portion of the metal is, commercially, if not physically, impossible.

It must always, no doubt, in these crises be a fit and anxious subject for the Bank's consideration, to what extent and in what cases it may be safe or expedient to risk its capital in the support of individuals, who may have been trading beyond their means. The too lavish or indiscriminate distribution of its favours might be fatal to itself and exceedingly pernicious in its influence on society. But if there be any truth in the principles, which I have been humbly endeavouring to vindicate, the collateral mischief commonly attributed in such cases to the presumed increase of the bank-note currency, is a matter altogether visionary. The use of the smaller class of notes is confined to the retail market, and even there is exceedingly limited. And Mr. Tooke has enumerated with much precision the several purposes, for which notes of a larger denomination are commonly called into activity. It is chiefly in Bank of England notes that the public revenue is collected, and to some extent paid into the Exchequer; and Government, I presume, could have no particular object of policy in obstructing such payments. Payments of money into courts of justice are also customarily made in Bank of England notes, transactions surely as innocent as can be of any injurious effect on prices or exchanges. On the execution of deeds of conveyance or mortgage, it has been usual to have bank-notes in readiness for the stipulated payment, in order that the transaction may be completed at once, and the parties saved the necessity of waiting till the cheque of the purchaser or mortgagor be presented to and accepted by his banker. There are also some trivial payments in bank-notes continually passing between parties who do not keep accounts with bankers; and there is likewise a certain limited sum in constant use for the adjustment of differences at the clearing-house. Lastly, private bankers are accustomed to keep their reserves either in deposit at the Bank of England or in Bank of England notes indifferently, their preference being very generally determined by the rela-

tive distances from the Bank at which their offices are situated. These are nearly all the functions, which the bank-note circulation is peculiarly required to perform in the monetary transactions of this country. There is scarcely one of them, which would not admit of an extensive substitution of other forms of credit, in the event of an adequate supply of bank-notes being denied. But, always assuming that the notes are issued by the Bank on solid and satisfactory security in the first instance, it would be difficult, I think, to show that any imaginable harm can arise, in any times or under any circumstances, from the indulgence of the parties concerned in such transactions, with the free use of the medium most conveniently adapted to their respective occasions. The question as to the expediency of rendering liberal aid, under circumstances of difficulty, to private bankers and other dispensers of capital, has been already disposed of, either directly or by implication, in my preceding arguments. It stands on entirely different ground, and must be determined, I conceive, generally by considerations of policy, varying in each particular case.

In conclusion, I desire most earnestly and emphatically to impress on the minds of those who have undertaken to conduct this perilous and uncalled-for experiment, that it is one for which this country at the present moment is wholly unprepared.* The enterprise on which you are now about to embark, involves in truth an entire subversion of the principles, on which all currencies have been hitherto administered. Wherever, in other parts of the world, the metals have constituted the chief medium of exchange, whether with or without a superstructure of credit, the equilibrium of the system has always been preserved by keeping the circulation as uniform as possible, and charging all fluctuations of the bullion on the hoards only. But you now propose to re-

* The sentences immediately following were not inserted in the first edition.

verse all this. You reject without the least compunction these elements of harmony ; and in contempt of all precedent, in defiance of every received maxim, insist that the hoards shall in future be spared, and that all variations in the amount of the bullion, after a certain point, shall be borne by the circulation alone. You require that the bank-note issues shall be contracted as the bullion is reduced. And this you call regulating those issues on the principles of a metallic currency ; while you forget altogether, that we have here no private hoards, as in countries where the currency is purely metallic, from whence such incidental vacancies can be supplied, or which might enable us to carry on our ordinary payments, when the Bank has its specie reduced in consequence of a failure of the wheat crops, and is compelled by your preposterous rules to withhold its usual issues. The practice of accumulating the precious metals has with us fallen utterly into disuse, and it would require a severe lesson indeed to revive it. It does not seem to me desirable that it should be revived. We cannot afford the cost of both the metallic and the banking systems at the same time. Neither can we, after having adopted one of them, expect still to participate as before in the benefits of the other. We have chosen to make the Bank of England our sole depositary of bullion ; we must abide by our election ; and we have no reasonable line of policy left us but to endeavour to strengthen her hands.

Owing to a misconception of one passage of Sir Robert Peel's opening speech, a very general impression prevailed, at the time of the first introduction of this measure, that it was intended to reserve to the Government a discretionary power, of relaxing the rule which restricts the issues of the Bank on credit to fourteen millions, whenever circumstances might render it expedient, and the Governor and Directors of the Bank should make application to that effect. It turned out, that the proposed reservation had reference exclusively to cases in which

it might become necessary to supply a void in the circulation, occasioned by the discontinuance of the issues of any of the private banks. A subsequent application from the London bankers, praying that a like discretionary power of enlarging the issues on credit might be extended to all cases, in which the necessity for such a proceeding might become apparent, was, I think, very properly rejected by Government, who could in no reason be expected to stultify themselves, by encouraging in one clause the very expectations which it is the prime object of the rest of the bill to extinguish, and thus relieve men from that obligation of self-reliance, which, to be effectual at all, must be absolute. Having satisfied themselves of the soundness of their principle, I certainly do not blame ministers for having manfully adhered to it. Nor do I consider it at all a desirable thing, that the Government of this kingdom should constitute itself into the regular referee upon every question as to bank issues and banking accommodation, that may arise in the ordinary course of commercial vicissitudes. Governments are not always the most competent judges on such subjects; and in this country they have quite enough to contend against, without involving themselves in the odium of such invidious and thankless duties. All the confidence which the law accords is best given to the Directors of the Bank, in whom the trust of reconciling the due regulation of the currency with the general welfare is more especially reposed, and on whom it will rest, whenever any strong necessity for extraordinary interference may arise, to make their appeal to the Government and to Parliament. I only regret, that any portion of this confidence should be now about to be withdrawn,—for the necessity of instituting a formal and solemn proceeding in seasons of difficulty, before what is wrong can be redressed, at once puts a clog on the timely exercise of a judicious discretion, and may have the effect of doubling the danger, from the unnecessary alarm and sensation which such unusual interpositions are always calculated to produce.

With respect to the minor enactments proposed by the bill, for the regulation of the joint-stock and private banks, I have little further to observe, and nothing in the way of stricture. Too rigid precautions can scarcely be enforced, for securing the public against fraudulent banking schemes, and the innocent proprietors of joint-stock banks against the profligacy and malversation of their managers. It is impossible therefore, not to approve of the new rules proposed, relative to the periodical registration and publication of the names and residences of all bankers and partners of banking companies, as well as that which requires banks of issue to render weekly accounts of their circulation for publication in the Gazette. In the case of the joint-stock banks, indeed, a mere publication of their issues would be a very inadequate substitute for that full disclosure of their affairs which their peculiar constitution and position so imperatively demand. But I am glad to perceive, that, by a separate bill for the regulation of that class of banks which has been since brought before Parliament, the deficiency has been supplied, and that, as soon as that bill shall have passed, the directors of all joint-stock banks will be required to publish monthly statements of their liabilities and assets, and likewise to submit their yearly accounts in detail to audit, and to print the same and furnish each proprietor with a copy. There has seldom been a more baleful gift to a nation, than the free license accorded by the bill of 1826 to the establishment of these joint-stock banks all over the kingdom, unaccompanied by any sufficient precautions for the prevention of those numerous abuses, which might have been foreseen as the natural and inevitable attendants on institutions so constructed. Against these abuses, the fullest publicity which with propriety can be given to banking accounts is the only security, and that certainly not a perfect security, inasmuch as it must always continue more or less open to fraudulent perversion. Still, however, it is a security of very considerable importance, and that not so much from

the information which it conveys to the public, as from that which it affords to the proprietors of the banks themselves. I am satisfied, it is only by the vigilance and active co-operation of those proprietors, that you can ever hope to place these great but often ill-governed establishments under any sound system of regulation. Those proprietors are apt to forget, that though their interest in the concern may be small, their responsibilities may chance to prove very serious; and their attention to its affairs cannot be too frequently or pointedly awakened.

I am inclined to regard the clauses forbidding the establishment of any new banks of issue, or the renewal of issue by any bank which has discontinued its issues, as on the whole judicious measures. I am satisfied also, that the Government has done wisely in sanctioning and encouraging the Bank of England's compositions with country banks, and in regulating the amount of compensation to which such banks shall in future be entitled, on consenting to relinquish their respective privileges of issue, and to circulate only notes of the Bank of England. And, as I believe that the excessive multiplication of branches by the joint-stock banks is a system unsound in principle, has been attended in many instances with very injurious results to the banks themselves, and conducted in many places in a spirit of competition by no means likely in the long run to conduce to the public benefit, I am well pleased to see some check imposed on such extension, by requiring every banker, who had not four licences at least for the issue of notes and bills already in force on the 6th of May last, to take out a separate licence for every town or place at which he shall issue notes or bills by himself or by his agent. The policy, which dictated the clauses first-mentioned, is obviously directed to the gradual extinction of the country issues throughout England, and the substitution of a circulation of Bank of England notes as the sole currency of the country. And, so long as this object shall be carried into effect, as it has been hitherto, with the full consent and co-operation of

the country bankers themselves, it appears to me a fair and honest object.

I am far from undervaluing the services performed by the country bankers in their respective districts; I do not think, that those services could in many instances be so well or acceptably performed by the branches of any overgrown establishment like the Bank of England; and I should deprecate exceedingly any proceeding, either now or hereafter, by which the efficiency of the banks for the performance of those services could be materially or prematurely weakened. It is not enough to tell me, that the extensive agricultural counties, which occupy the circle of sixty-five miles round London, experience no inconvenience nor any want of banking accommodation, in consequence of banks with more than six partners having been hitherto prohibited from issuing notes within that circle. The actual issue of notes to the amount of 1,329,000*l.* by banks with six partners or less, residing within the sixty-five miles, is not after all so very insignificant a proportion of the whole private-bank currency of the kingdom, as compared with the population and wealth of the district in question. But, even if it could be made out, that the circle of sixty-five miles round London had absolutely no other circulation than Bank of England notes, and that it felt the want of no other, it would not in the least follow, that the same experiment might be tried with perfect safety in any other part of England, where the people had long been accustomed to circulate nothing else than the notes of their local bankers, and where the capitals of those bankers and their system of business might be perfectly adapted to the sphere which affords them the benefit of this circulation, and yet might not be equal to anything beyond it. In a country like England, where capital circulates so freely and so readily finds its proper place, the scale of establishments for banking and commerce bears in general a pretty exact and not an exaggerated proportion to the wants and capacities of their respective vicinities. And we have no right there-

fore to assume, that the country banks of issue generally, however competent to their present business, would be in a condition to perform the same functions with the same efficiency, if deprived of that share of their means which they derive from their circulation. The *primâ facie* presumption, indeed, is directly the reverse. A certain portion of the capital, which every issuing banker employs in his business, is the capital borrowed on his notes. And if you deny him the power of issue, it is by no means obvious that he will be enabled to raise the same funds from any other source, or that the public will not be deprived for a time at least of their accustomed banking accommodation, in a proportion corresponding with the reduction. A desire spontaneously expressed by any country banker to avail himself of the terms of composition offered by the new bill, and to substitute a circulation of Bank of England notes in future for his own, may perhaps indeed be a tolerably safe test of that individual's ability to conduct his banking business efficiently and securely, without the help of his circulation, and it may be a sufficient test to be acted upon with respect to him; but it is no test of the same ability in any other banker.

It is on this account that I should be strongly opposed to any legislative measure, either present or prospective, for the general and compulsory suppression of the country-note circulation. And it appears to me, that the same objection to that course, which prevails at present, will equally hold good at the end of the ten years, when our system of banking is again to come under revision. One of the greatest efforts perhaps which a commercial country ever made, was that made by this country in the years immediately following 1825, when, under circumstances of great general depression and difficulty, nearly eight millions of notes under 5*l.* were withdrawn from circulation, and their place supplied by an equal amount of gold coin. I do not believe, that even the change from war to peace was felt more severely, and the resumption of cash

payments was as nothing to it. There were strong reasons for that measure; yet I have my doubts, if the benefits derived from it were an adequate compensation for the long years of stagnation and suffering, accompanied by political and social disquiet, which intervened between 1825 and 1833, and which I believe to have been intimately connected with the paralysed condition of the country banks. The trial however is well over; and no one can desire to see it repeated. It has procured the country the advantage of a small currency of metallic coin, and a great advantage it undoubtedly is. For the substitution of Bank of England notes in place of the country circulation which still remains, there is by no means the same urgency. The risk of insolvency is in truth the only well-grounded objection to the issues of the private banks; even that has been greatly mitigated in its most mischievous results, since the suppression of the small notes; and it is an objection which scarcely applies to the case of the joint-stock banks at all, inasmuch as the circulation of those banks, especially under the improved system of regulation about to be applied to them, will always be tolerably safe for the public, whatever they may be for their proprietors. It seems to me, therefore, that we may be fairly satisfied with the gradual, easy, and silent process of reduction in the country circulation, which is at present going on. And, even should that by any accident be arrested, we have still left the untried resource of demanding special security from the country bankers for their issues, a measure which has often been suggested and debated, and to which I have never been able to discover any insuperable objection.

To the allegation that the country bankers do not regulate their issues by the exchanges, I attach not, as may have been seen, the slightest importance. I do not think it at all desirable, that country bankers should regulate their issues by the exchanges; and if they did, I am entirely confident, that the exchanges would not be in any sensible degree influenced by their movements.

An objection somewhat more plausible to the exercise of the privilege of issue by private or joint-stock banks, has been urged on the ground, that the eagerness of banks of issue to increase their circulation leads them frequently to embark in hazardous advances ; but this does not go for much. There can be no doubt that, in all departments of banking business, the reckless competition of rival establishments may induce them, for the sake of alluring customers, to grant occasionally very improvident and mischievous facilities of credit. This was strikingly exemplified, as it was signally punished, in the case of the joint-stock banks, soon after their first establishment, when struggling for a footing in the market with the old country banks and the provincial branches of the Bank of England. But the competition was quite as much for deposits as for circulation, and for deposits it was infinitely more successful ; there being this important difference, as I have shown, between the two cases, that the aggregate amount of banking deposits may be increased indefinitely, whereas there can be no augmentation of the circulation of any one banker without a proportionate reduction of the circulation of others. This secret could scarcely remain long unknown to the parties in such a conflict. And, whatever may be the indiscretions or absurdities to which men in the blindness of rivalry may occasionally commit themselves, it seems reasonable to presume, that, after the first ardour of the competitors had been sobered down by a few of those lessons which imprudent bankers are apt to receive, and after the share of the general business which each might have the power of seizing and keeping had been in some measure ascertained, they would become sensible at length of the folly of wasting their means, in contending for an object which always eluded their grasp, and learn to limit their desires to that which is attainable. Overtrading and speculation may equally be supported with capital borrowed on the book-credit of banks as with capital borrowed on notes, and, save to such extent as

interest may be allowed to the depositor, with the same profit. Recent experience proves indeed, that, with a system of management intrinsically vicious, the capital even of the proprietors of the bank has as little chance of being spared, as the capital of the depositors and the note-holders. And if this argument on the ground of the mischievous consequences of banking competition is to be attended to, it may be urged with far greater force against the toleration of any competing banks at all, than against the allowance of competing issues.

I am relieved from the necessity of entering at any length into the cases of the bank-note currencies of Scotland and Ireland, those currencies not being affected by the present bill, and there being no intention of introducing any measure with regard to them in the present session of parliament. Those cases stand each on merits of its own, strongly distinguished from each other, and both of them separated by a still more strongly marked line from the case of the English banks. The main point in which the monetary systems of Scotland and Ireland differ from that of England, is in the continued use of notes under the value of five pounds in both the former countries. Though the convertibility therefore of the Scotch and Irish paper is, to every practical intent, just as perfect as the convertibility of the bank-note circulation of England, that is, though equally (probably more) effectual means are provided for meeting every demand for coin which in the ordinary course of things can arise in either country, that object is accomplished in Scotland and Ireland at a much smaller expense of the precious metals than in this country. In Scotland there is absolutely no gold in circulation, and not much in Ireland; and, as the banks in neither country are liable to any drains from the exchanges, it is only in fact against the danger of internal panics that they require to be provided with gold at all. That danger is not to be disregarded in Ireland, nor is it disregarded by the well-regulated joint-stock banks, which now chiefly divide

among them the circulation of that country. In Scotland, it is a danger wholly unknown. The people of Scotland have been so long familiarized to the use of bank-notes, and, under the fortunate system of banking which has found its seat there, have had such long experience of their safety, that they greatly prefer them to gold, of the genuineness of which they are no judges, and which they never take when they can avoid it. Such a thing as a run on the Scotch banks for gold has not occurred indeed within the memory of man. And, if they are to be reproached for not keeping themselves continually armed against so remote a contingency, the same reproach will apply with still greater force against your new department of issue in the Bank of England, which must always continue really (and not merely hypothetically) liable to have its gold called for in times of distrust, and which, under circumstances that may without difficulty be conceived, all your precautions and all your outlay would not save from being stripped of its gold to the last sovereign. It remains to be added, that, in Scotland and Ireland, the administration of the bank-note circulation is now, I believe, entirely in the hands of joint-stock banks of large capital. The imputation of insecurity therefore, which after all was the only very cogent ground of objection against the English small notes, and was the cause of their condemnation, has no application at all to either of those currencies.

Notwithstanding these important considerations, however, the rage for enlarging everywhere the metallic basis of the circulation; and for planting every spot with gold, even where it is least wanted, which betrays itself in this scheme for restricting the amount of our credit circulation in England, is certainly rather calculated to excite some uneasiness in the minds of all who take an interest in the welfare of the sister kingdoms, as to the fate that may be intended for their monetary institutions, whenever the time shall arrive for dealing with them. It is to be hoped, however, that, before that

period, somewhat juster notions of the nature and principles of credit currencies may have gained the ascendant. It would take at least six millions of gold to replace the small-note issues of Scotland and Ireland, and to place their banks at the same time in an adequate state of preparation to meet incidental demands for specie. And with a stock of some fifteen millions to be kept up at the same time in the Bank of England, and the prospect perhaps of three millions more being soon required in that quarter, he would be a bold man who would undertake to provide the sum. This difficulty alone should be a sufficient security against any such interference as is apprehended. But even this would be comparatively but a secondary point for consideration. That, without any necessity alleged, without even a single plea of expediency beyond the assumed desirableness of bringing the Scotch scheme of circulation into closer conformity with the fancies of a few self-confident theorists, at a time when all commercial affairs are proceeding smoothly, moderately, and satisfactorily, the kingdom of Scotland should be subjected to the torture of an experiment, which is enough to dislocate her whole social frame, would be a proceeding so wanton and incredible, that I will not believe it can enter the mind of any sober or considerate statesman. The Scotch scheme of banking has stood the test now of nearly a century and a half, during which period it is acknowledged to have contributed in the most essential manner to the internal prosperity of the country, has given perfect contentment to the people, and has exhibited an endurance and solidity, which you may in vain seek for among the same class of institutions elsewhere. Its notes under £5 constitute two-thirds of its circulation; yet the most unconscionable stickler for limitation would scarcely find fault with their quantity. This circulation of small notes is intimately linked and bound up with all the other parts of their system, with the cash credits, the interest deposits, and every other circumstance

which has helped to make Scotland what she is. The Scotch know its value, as they showed in 1825, and will not surrender it tamely. Their small notes are their *fueros*.*

* (*Note to Second Edition.*)—Since the first edition of this treatise was published, a very lively and extensive alarm appears to have been excited in Scotland, by an intimation from the Minister of his intention to introduce some measure for the regulation of the Scotch and Irish currencies in the ensuing session of Parliament. Though not menaced in express terms, the suppression of the small notes is assumed to be the object aimed at. And from the results of the meetings which have been already held on the subject in most of the county towns of that quarter of the kingdom, it is obvious, that any proposal of the nature supposed is likely to encounter the same universal and determined opposition from the people whom it affects as on all former occasions.

As to the fact of Scotland having benefited largely by her system of small-note circulation, and as to the expediency, in so far as Scotch interests are concerned, of continuing it, it is clear, there is but one opinion among those most competent to judge of the case and best entitled to decide on it. But an idea seems very generally to have got abroad, that England also is entitled to a voice in this matter, that a wrong somehow is done to England by permitting the Scotch bankers to exercise a privilege, from which the private bankers in England are now entirely excluded. It is asked, "what claim has Scotland to be relieved from her share of the burthen of a metallic currency, and why should England alone pay the cost?" And, in proof of the supposed injustice, there has been specially cited the case of those drains of specie, to which the country is subjected from time to time by the necessity of paying for foreign corn, and to which it is alleged that every English banker has to contribute his quota, while no such obligation attaches on the bankers in Scotland.

Now, if those who are so anxious to favour Scotland with an improved system of currency, have no better argument to urge against the Scotch circulation of small notes, than the injury which its existence inflicts on England, I am inclined to think, that the Scotch bankers have very little to apprehend from any attack on their privilege of issue which may be meditated. Indeed, anything more hollow, frivolous, or untenable than this ground of argument was never, I will venture to affirm, propounded to parliament. The question is purely and exclusively a Scotch question. By adopting and adhering to a currency of one-pound notes, the Scotch have no doubt renounced for themselves whatever advantages are to be obtained from a more abundant distribution and liberal use of the precious metals. They

The Irish certainly have not the same claims with the Scotch, on the score of the antiquity or tried merits of their banking system. . But there are still too good grounds for treating the Irish circulation

cannot indulge their preference for the one system, and at the same time expect to retain all the facilities and security which exclusively pertain to the other. If any great public calamity were for a season to annihilate the value of all credit currencies in this kingdom, it is obvious, that the English, with their copious stock of gold coin distributed in the hands of the entire community, would be in a better position for encountering the trials of the time, than the Scotch, deprived, as they would be, altogether of their only medium of exchange. And it may fairly therefore be made a question, whether the benefits which the people of Scotland have derived from the use of their one-pound notes, great as those benefits are admitted to have been, are yet of sufficient importance to counterbalance the hazards inseparable from the condition of a people unprovided with any store of metallic money. Still, as I have said, this is a question which concerns only the Scotch themselves; and it seems but reasonable, that they should have some choice in its decision. It is not because a currency of gold coin may be the most judicious and eligible system in the abstract, that you are to thrust it on an unwilling people, in violent displacement of another system which has become identified with their habits and interests, and to which a long experience of its manifold conveniences has attached them. It would be mere impertinence in any indifferent party, to interpose between them and a danger which they have been accustomed through several generations to brave with impunity, and of which, if it should eventually be realized, they alone will have to bear the penalty. It is nothing to the Scotch, that England has given the preference to a gold circulation. The small notes in England were suppressed, because the system there was not fit to be preserved; and England, not Scotland, reaps the whole benefit, proximate and ulterior, of the metallic currency which has there been substituted. It would be no relief to the private bankers in England who have suffered by this change, if you were to subject their brethren in Scotland to a similar privation. Nor because a bad system of credit paper has been put down in the one country, can either justice or common sense require, that a good one should be put down in the other. As to the idea, that the exemption of the Scotch banks from the necessity of issuing gold or of holding large reserves in that metal, throws any undue burthen on the provincial banks in England, or that, in consequence of such exemption, the English bankers have to contribute a larger share of the metals than would otherwise have been required of them for the redress of the exchanges, it is an idea which

of small notes with similar forbearance. The present social condition of Ireland is not such, that any wise minister would choose to tamper unadvisedly with matters affecting its internal peace, or which might be likely never could have occurred to any one in the least conversant with the facts of the case, and which, if the Scotch bankers are only true to their own cause, I will venture to say, can never be set up for a moment in Parliament as an argument for laying their issues under limitation. There is not the slightest pretext for alleging, that the English country banks, or the English country circulation, furnish any part of the gold which is drained off during an adverse exchange, more than the Scotch banks or the Scotch circulation. The entire burthen of every such drain falls on the Bank of England and the Bank of England alone. That body has to meet every such exigency from its own resources, without any assistance from the metallic issues of the provinces, and would be equally without assistance from Scotland, were the Scotch one-pound notes to be replaced with gold. Generally speaking, no English country bank keeps a larger supply of sovereigns in its till, than are necessary for its small payments; and as those payments must equally go on whether the foreign exchange be adverse or favourable, it has not a sovereign to spare in aid of the Bank of England, when the Bank of England is called upon for gold. Nor is any such aid ever required of it. In all states of the exchange, indeed, whatever surplus gold in excess of the wants of the banks, is carried by the stream of trade from London to the provinces, passes back again from the country banks, either directly or through the agency of the branches of the Bank of England, to the metropolis; and just so is any surplus gold which finds its way to Scotland returned, through one channel or another, to London. The only difference is, that the English bankers must retain enough to supply the small circulation of their respective districts; while the Scotch have no occasion to retain any at all, inasmuch as with them that small circulation is supplied in their own paper. The English bankers keep their principal reserves in London; and so do the Scotch bankers. And if a drain of specie is followed by a general panic, there commences usually a run on the English banks for gold; and, in order to meet it, those banks have to realize their London reserves in that metal, at the very time perhaps when the pressure on the Bank of England for gold to be sent abroad is at its height. In Scotland, on the other hand, as I have said, a run on the banks for gold is a thing unknown. By substituting a gold currency in Scotland for the present circulation of small notes, all this would be changed; the people would no sooner become familiarized to the use of coin, than their banks, like those of England, would become liable in seasons of discredit to runs for gold; so that the measure, far from contributing to relieve the sister country from any portion of the

to afford the people a new grievance. No country perhaps in the world, scarcely even excepting the United States of America, has suffered so much as Ireland from bad banking; and now that we have at length, after various unprofitable attempts, succeeded in establishing there a banking system which holds out a fair prospect of usefulness, it does not seem to be exactly the time for disturbing it. Owing to the poverty of the country, indeed, the issue of small notes constitutes there so important a branch of the whole business of banking,* that it is very doubtful whether, without it, the present establishments would find it worth their while to continue their dealings.

After having presumed to impugn so freely the Government measures for the reform of our paper circulation, it may be expected possibly that, before I conclude, I should offer some explanation of my own views as to the most proper and safe method of conducting a system of issue like that of the Bank of England. On this head, however, I really have very little that is new to suggest. I have all along professed my conviction that our means of correcting the aberrations of the bullion, and preserving the equilibrium of the exchanges, consistently with the least possible violence to other interests which have scarcely less claim on our regards, are exceedingly limited; that there is perhaps more of evil, on the whole, to be apprehended from over-officious and in-

cost of maintaining her present metallic currency, would only have the effect of introducing a new set of claimants for participation in the stock of treasure on which the Bank of England has to rely for its solvency, and of which the new act professes to be so specially careful,—the effect of diminishing the resources, by which the Bank has been hitherto enabled to stand the brunt of every run for specie, and diverting them to uses, which are now quite as satisfactorily performed without any such aid.

* It appears from the Report of the Committee of 1826 on Promissory Notes in Ireland and Scotland, that the average amount of small notes issued by the Irish country banks in that and the five preceding years, bore to the rest of the Irish country circulation a proportion of about eleven to one, the circulation of notes of five pounds and upwards being confined almost exclusively to the metropolitan district. (See Report, p. 14, 15.)

considerate interference than from absolutely letting them alone; and that, even by the most judicious precautions, perfect security must always be unattainable. I have no secret to divulge, no grand remedy which is to renovate at once the whole fabric of society, to keep prices and profits for ever at the same perennial level, and make every man fortunate and wise. My utmost hope is, by a more careful husbanding of our means, and a more diligent and vigilant turning to account of every collateral help by which those means can be strengthened, to place ourselves at all times in a better state of preparation for encountering those vicissitudes of the times which we cannot escape, and thus weathering their violence.

The treatment of each case of drain must vary according to its merits; and the extent to which the bullion may be allowed to run off, without any effort to arrest it, the regulation of the advances, and the management of the market for securities, must be governed, I conceive, not by any fixed or immutable rule, but by a large discretion, to be exercised with a full reference, in every case, to causes, circumstances, and prospects. Such a system of treatment will necessarily demand a more than ordinary exercise of discrimination and judgment, on the part of those who are to superintend it. The first question therefore which naturally suggests itself is, whether the Court of Directors of the Bank of England might not, by some arrangement, be rendered a more efficient body for the discharge of those duties than they are at present; and I certainly am one of those who believe, that the constitution of the Court might be essentially improved by giving them a master. I do not say, that the Directors of the Bank have not hitherto exercised their functions, on the whole, with much honesty of purpose, and in general with a clearer perception of their proper course than perhaps they have always had credit for; but they have been deficient in system—have fallen into occasional mistakes—and, as mercantile men themselves, they are

placed in a false position when called upon, as they frequently are, to decide questions affecting their individual interests, and in relation to which their acts are continually open to misconstruction. I should be glad, therefore, to see the office of Governor filled by some person of experience and intelligence, well trained to business but wholly unconnected with it, who should receive a liberal salary, and should in all respects be in a position to give his whole thoughts and time to the affairs of the Bank of England, and to take on himself the responsibility of their careful administration. I do not desire, that the Governor should be the nominee of the Crown, as in France. His appointment might with perfect propriety be intrusted to the Directors, requiring only the confirmation of the Crown to make it valid; and perhaps the selection had better be from their own body. But, once nominated, the appointment should be permanent, and the Governor ought not to be liable to go out by rotation like the other Directors, nor be removable on any charge from his office, but after a formal proceeding and inquiry. The business of the Bank would continue to be conducted by the Court as before, under the presidency of the Governor, who ought however, whenever he may think it necessary to assume the responsibility of a question on himself, to have a *вето* on all their resolutions.

These precautions having been taken for ensuring, as far as possible, the benefit of a sound judgment on whatever questions may arise, I do not perceive any advantage likely to be attained by any further innovation in the constitution of the managing body, and still less by any specific limitation of its powers. The principles on which it might be deemed desirable that the affairs of the Bank should be administered, under certain given contingencies, might perhaps be embodied in resolutions, or by some other means might be made the subject of a general understanding between the State and the Bank, but not in a shape that would be of any legal effect in fettering the discretion of the administrative body. The

most important part of this understanding would necessarily be, that the Bank should, under all circumstances, steadily aim at the possession of as large a reserve in bullion as the vicissitudes of trade might permit, without considering how the interests of its proprietors might be affected by the accumulation. And whatever might be the sacrifice, which the honest fulfilment of this understanding might be likely to require of the Bank, I conceive that they should be fully indemnified for it. It is so vital an object of public policy to preserve a large command over the precious metals, that any expenditure by which the convertibility of the circulation can be more effectually secured, ought to be a very minor consideration; and, where the expenditure is for precautions altogether beyond the measure which a bank, having only its own interests to consult, would think it necessary to observe, it ought not, I conceive, to be thrown entirely on the Bank of England. It seems to me, that it would have been a policy more worthy of the Government, and more consistent even with the ultimate interests of the public service, to have relinquished on the present occasion without reserve the annual allowance which, by the act of 1833, the Bank was required to pay for its charter, instead of adding to that sum the amount of the Bank's composition for stamp duties, making the State a partner of the Bank in respect to any profits which it may realize from its issues on securities in excess of the limited sum of fourteen millions, and leaving the Bank to indemnify itself by the unrestrained employment of its deposits.

It is more by its abstinence from any measures whereby an inopportune fall of the market rate of interest might be accelerated, and parties induced to remit their funds to foreign countries for investment, with the effect of stopping the influx of gold, than by its active exertions, that the Bank, under any system of regulation, can hope to conduce materially to the repletion of its treasury; and even in this respect, as I have intimated,

its means of operating appear to me to be sufficiently uncertain and precarious. Mr. Tooke seems to think, that the Bank might always be able to maintain an average stock of at least ten millions of bullion, by simply keeping its discounts steadily above the market rate whenever the tide of the metals might be setting in, and thereby allowing its securities to run off, without replacing them by other investments. And such no doubt is the rule of action by which, under these circumstances, it would become the Bank to be guided. It would often happen, however, if not indeed in all cases, that, after a certain time, the competition of the public would suffice of itself, without any co-operation on the part of the Bank, to bring down the rate of interest to a level which would be inconsistent with the continued influx of gold. It is evident, for instance, that, for some time past, the market rate of interest here has been so low, that the influx of bullion could not have been continued, nor an extensive transfer of capital to foreign countries for investment prevented, had not the price of foreign securities, in consequence of the quiet state of the Continent, been rising in nearly a similar proportion, though no one blames the Bank of England for having contributed to the fall of interest either by its acts or its omissions. We can place no reliance, however, on the permanence of such a state of things, though doubtless the recent extraordinary influx of the metals places us in a far more advantageous position for encountering any new drain than we have ever occupied on any similar occasion. The railway projects which are now on foot in almost every part of Europe are very likely, ere long, to offer tempting openings for employment to a large portion of the redundant capital now in this country, and will produce in that event a movement which, unless counteracted by other causes, cannot fail to make itself almost immediately felt in the exchanges. On the whole, therefore, I am inclined to place more reliance on the expedients which are at our command for economizing our home stock of gold, than

on our ability to preserve or increase that stock through any specific action on the exchanges;—unless indeed (which is also in the chapter of contingencies), we should in the meanwhile be overwhelmed by the yearly increasing flood of new metallic wealth which has been setting in from Siberia. And the expedients to which I allude, if taken together, will be found by no means insignificant.

In the first place; it appears to me, that our command of gold coin might be materially increased, and other very desirable objects at the same time promoted, by an alteration in our system of gold coinage,—an alteration that would be perfectly consistent with the maintenance of the standard, and to which I am unable to discover any solid objection. I believe the Mint of England is the only Mint in the world, which undertakes to coin all the gold that is brought to it without requiring any remuneration. A rather overstrained delicacy as to the slightest derogation from the standard, with which I am not disposed to quarrel, has given origin no doubt to this anomaly; though it is universally acknowledged, I believe, that the metal acquires an accession of value by being coined, quite equal to the cost of the coinage, and there is no very obvious reason therefore, why this cost should not be borne by the owners of the gold. If, however, the gold coin were at all times exchangeable at the Mint or at the Bank for an equal weight in gold bars or ingots of full standard fineness, it does not appear to me, that the integrity of the standard would be at all brought into question by the imposition of any seignorage which, consistently with other prudential considerations, it might be thought desirable to levy. The exchangeable value of the coin could never fall below that of the bars, into which it might at any instant be converted. Nor, with this precaution for the preservation of the standard, does it seem to me, that there would be any necessity for limiting the deduction from the coin to a mere brassage, sufficient to defray the expense of the coinage. The only point that would require to be

guarded against, would be such a reduction of the intrinsic value of the coin as should hold out encouragement to coiners; and, as this danger is not supposed to accrue until the coiner can make at least between 5 and 7 per cent. by the process of fabrication, that per-centage would constitute the proper limit of the seignorage. Under a monetary system constituted on these principles, the use of the gold coin would be exclusively confined to the purposes of internal commerce. The bullion-merchant who might have occasion for gold to send abroad, would exchange his sovereigns for bars. The goldsmith and goldbeater who might require the metal for consumption, would do the same. And there would be an end to all further melting and waste of the coin. I have frequently regretted, that some plan of this description was not thought of, when the new coinage at present in progress was first undertaken. A very heavy and useless expense might by that means have been saved. But the new coinage is still far from being completed; and, even if it were, the cost of recoinage the new sovereigns would be infinitely overbalanced by the profit of the seignorage. I should propose to fix the seignorage at 5 per cent., preserving the weight of the coin exactly as it is at present, and replacing the deficient gold with alloy. In exchange for this coin, the holder would be entitled to receive, on demand, an equal weight of pure standard gold in bars, assayed, prepared, and stamped at the Mint; and the holder of Bank of England notes, applying for payment, would have the option of taking the amount either in coin or bars, as might best suit his purpose.

By this plan the public would not, as by that proposed by Mr. Ricardo, be left, in the event of civil war or invasion, without any valuable currency whatever. The coin, even though its convertibility into standard gold should for a time be suspended, would at all events pass at a rate corresponding with its intrinsic value. The Americans, in their recent endeavours to

establish for themselves a national metallic standard, have shown their sagacity at the outset by laying a high seignorage on their eagles, without which they might have gone on coining for any given length of time, without being able to retain a single piece in the country. There is much discrepancy in the estimates which have been formed, as to the quantity of gold coin at present existing in the United Kingdom. On a review of the whole, however, I arrive at the conclusion, that, including the 16,000,000*l.* in the Bank of England, and such sums as may be distributed over Ireland and Scotland, the aggregate amount cannot be materially short of, if it do not even exceed, 40,000,000*l.* Of this sum, say, that so much as even 8,000,000*l.* should be melted into bars for the purpose of being used in foreign payments, there would remain a sum of 32,000,000*l.* sterling to be recoined into 33,600,000 sovereigns, giving a clear surplus to the State of 1,600,000*l.*, and adding the same sum to the stock of gold in the Bank of England. Besides which, all that incessant cost of coining and recoinage would be saved, which, under our present system, is occasioned by the frequent transit of the bullion to be fused and recoined in foreign countries, from whence it again passes back with the turn of the exchange, to be again fused and recoined here.

In the second place; the object of economizing our stock of gold may perhaps be still more effectually served, and to an extent which it might be difficult to calculate, by the judicious employment of silver in the rectification of the exchanges, and that without the slightest disturbance of the value or of the general system of our currency. It does not seem to me, that the practicability of making silver effectual for all purposes of foreign payment, without bringing it at all in collision with our existing scheme of domestic circulation, is generally understood or has ever been fairly considered. The objections to a double standard are to my mind unanswerable. I should be equally, or even more averse, to the

entertainment of any project for discarding at this time of day our gold standard and reverting to a standard of silver. And, above all, I hold in utter abhorrence the idea of combining either scheme with such a valuation of the metals, as should have the effect of making silver a legal tender in all payments, at a rate materially exceeding its present worth as compared with gold, and thus surreptitiously lowering the standard. Nothing of this kind is in the least necessary to my object. What I propose is, that, whenever the Directors of the Bank perceive that their stock of gold is becoming stationary (or perhaps sooner), they should open their coffers for the reception of all silver which may be tendered to them, at the full market price of the day. I would have this price ascertained by authenticated weekly reports, founded on actual sales, and published in the London Gazette. I would have the silver cast into standard bars and stamped by the Mint, in the same manner as the gold. And I would make these bars a legal tender by the Bank in lieu of gold, not at any fixed rate as measured by the gold, but at the market price of the day. By this means, I think it exceedingly probable, that nearly all the silver bullion which arrives annually in this country from South America, might, whenever it should become expedient for the Bank to replenish its store, be arrested in its passage to the Continent and lodged in the Bank. If the importer could get his full price at the Bank, he would not think it necessary to go farther. A considerable share even of that proportion of the yearly produce of the silver mines, which the facilities of coinage offered by foreign mints attract at present directly to the continent from the places of its origin, might be diverted into British ports. And thus the influx of silver into the Bank, so long as it might be convenient for the Bank to receive it, would become as regular and steady (always presuming that there should be no strong adverse current of exchange setting in at the time) as that of the gold. This silver, it would be in the option

of the Bank, whenever its stock of gold should have fallen low, to tender at the certified market price in place of gold, to parties bringing in their notes for payment, while at all other times the choice might be left in courtesy to the parties applying, who would often probably prefer the silver as the better remittance.* Sir Robert Peel has made one step in advance towards these objects,

* (*Note to Second Edition.*)—While I am anxious, however, to impress on the public mind the important advantages that may be obtained from the judicious employment of silver in the correction of the exchanges, I must not allow myself to be understood as rating those advantages at more than they are really worth. There can be no doubt, that the silver brought annually from South America to this country, and thence re-exported to the continent of Europe, contributes already, without any intervention on the part of the Bank of England, to balance *pro tanto* the commercial account between Great Britain and the continent. And it would be altogether a mistake, therefore, to suppose, that, for every ounce of this metal diverted into the Bank's coffers, there would be a clear and absolute gain to the Bank of so much additional power over the exchanges. Whether a remittance of silver to the continent be employed in paying for foreign corn, or in purchasing gold, it must necessarily serve to relieve the Bank, in a proportion corresponding with the value remitted, from the pressure of foreign demands. According to the ordinary course of the bullion trade, a great part of the silver now sent abroad is understood to be transmitted merely for the purpose of being exchanged for gold. And if the exportation of the silver were the sole indispensable condition on which the gold could be procured, it is evident, that there would be just as much lost as gained, by stopping the efflux, and turning the stream of metal into the Bank. It seems quite reasonable, however, to presume, that the holders of gold bullion abroad would not be content to hold it perpetually, merely because there might no longer exist the same facility as heretofore of turning it into silver in this country. They would still feel the same necessity as ever of making interest on their respective capitals. Much of their superfluous gold would still find its way, therefore, to the English mint; and if there were no silver in the market to furnish a profitable medium of return, they would naturally direct their thoughts to a purchase of securities, or to such other mode of investment as might be most suitable to the circumstances of the times. The influx of gold might probably thus be maintained on a scale but very little diminished, while the resources of the Bank would be strengthened both by the stock of silver retained in the country, and by the additional importations of that metal, which the opening of a new market on the spot might be expected to attract.

by permitting, as he does by his bill, the Bank of England, in its issue department, to issue notes upon silver. But his plan goes no further than to establish a *depôt* of silver bullion at the Bank, for the convenience of the merchants who may desire to purchase or sell it. He hampers his permission, too, with a limitation, which would be very ill adapted to the object which I have in view, by restricting the Bank from holding a larger quantity of silver at any given time than in the proportion of one-fourth to its stock of gold. Now, this proportion might, at times when the Bank treasury should be more than ordinarily full, be a great deal too large, while at other seasons it might be much too small. In the case of the bullion falling at any time to a very low ebb, it would be the object of the Bank to lay its hands on whatever specie might come within its reach, without caring whether it might be gold or silver.

I can conceive circumstances in which it might become expedient to issue even a subsidiary coinage of fine silver in aid of our gold ; in which case, the silver might be coined into dollar pieces, and allowed to pass at an *agio* varying with the market price of the day, as gold varies abroad. Such a coinage would have to be kept altogether distinct from our present circulation of small silver money, than which, for its actual purpose (that of payments under forty shillings), nothing can be more happily contrived and adapted. There is no occasion, however, to consider the feasibility of any project of this kind at present, as it has no relevance to the immediate object before us, which is to find a substitute for gold in the adjustment of the exchanges.

In the third place ; another expedient by which foreign payments might be effected without the intervention of gold, is by the purchase and transmission of foreign securities. It must be admitted, that such securities are not the most eligible investment for the funds of an institution like the Bank of England. They are at all times more or less hazardous, and in the event of a

general war might become for a time, to say the least, wholly unavailable. Were it notorious, indeed, that the Bank of England was a principal holder of the stock of any hostile government abroad, the object of embarrassing the Bank, and through the Bank the public finances of this country, would afford so plausible a pretext for a breach of faith, in itself peculiarly convenient and opportune, that the interests not only of the Bank itself, but of all British holders of the security, would be endangered in an aggravated degree by the Bank's position. It could not, therefore, be prudently recommended to the Bank to resort to this method of protecting her gold, on such a scale as might possibly involve her in losses, which would impair her credit or trench deeply into her capital. A certain limited extent of risk, however, might justifiably be incurred. The Bank might without impropriety, I think, exchange a million of her present securities for a corresponding sum in foreign stocks, dividing perhaps her risk, by apportioning the investment among the securities of the four great Continental powers. This would give the Bank an additional million to meet an adverse exchange, and *pro tanto* would strengthen her hands. On the necessity arising, the stock might be sent abroad to any of the great Continental marts for sale, and bills negotiated against it. And temporary investments even to a considerably larger extent and of a similar character might be ventured upon, with a clear political horizon, and an imminent apprehension of a demand for gold.

The measure which I advocate lastly, is one which, I fear, may have to encounter a larger share of prejudice than either of the above; though I cannot persuade myself, that, as a temporary expedient, it is more objectionable in principle, or beset with more of real danger. I allude to an issue of Bank of England one-pound notes. It has been held out as one of the advantages which ought to console us in England for the costliness of our gold circulation, when we compare it

with the cheap and homely substitute, which performs the same offices in Scotland with quite as much facility and efficiency, that the specie dispersed in circulation constitutes a source of supply and reinforcement to the gold in the reserves of the bankers, and affords to the whole system so indispensable an *appui*, that without it there would be scarcely any possibility of preserving, in any case of panic or other extraordinary emergency, the convertibility of the credit portion of the circulation. It does not appear to me, however, to be very consistent with this doctrine, that the resource, which the possession of a full circulation of gold has thus placed in our hands, should be a resource expressly forbidden to us for all practical uses, in the very contingency in which it is most required. Such a rule may be sufficiently in analogy with the principle of the separation of the departments. But it seems sufficiently absurd to think, that the Bank of England is to be permitted to approach the brink of insolvency, and even to plunge into it, rather than use the smallest portion of the twenty or thirty millions of gold with which the general circulation of the country is saturated, and for which the people are at all times willing to accept the Bank's credit as a substitute. What are the substantial objections to a small-note circulation?—That it spreads and exacerbates the mischiefs occasioned by insolvency? The objection has no application to this proposal, for the only issuer is to be the Bank of England. That it increases the temptations and facilities to forgery? We hear no complaints of the forgery of the one-pound notes of the Scotch banks. If, therefore, the former one-pound issues of the Bank of England gave occasion to an unusual proportion of forgeries, it can only be inferred, that the means of prevention adopted by the Bank were not so efficient as they are in Scotland. Besides, where the issue is to be merely of temporary duration, the temptation to forgery will neither have time to operate, nor the forger the same inducement to make his preparations.

That small notes displace the circulating coin? Undoubtedly they do; and they also replace it. And it is their very aptitude for those offices, which make them the most convenient of all possible substitutes for the gold, when the services of the latter may be imperatively demanded for purposes of international exchange, in which the paper currency can be of no use. I certainly should not think it advisable, that the metallic circulation of the country should be disturbed on every adverse turn of the exchanges. But I conceive, that the substitution of a small-note currency may at all times be confidently looked to as a safe and sure resource in the last resort, and that for such extremities the Bank ought never to be unprepared. By merely discontinuing for a time its issue of sovereigns in fractional payments and for purposes of domestic circulation, and sending out its one-pound notes in their stead, the Bank has it always in its power, whenever it pleases, to absorb a portion of the circulating gold into its reserves. And, by merely reversing the process, by resuming the issues of gold and refraining from re-issuing the notes which come back to it in the ordinary course of its receipts, the notes may with equal facility be recalled.

When, in 1825, the run on the banks was arrested, and the Bank of England itself probably saved, by the fortunate discovery of a box of eight or nine hundred thousand one-pound notes, which had been laid aside in some corner of the Bank and forgotten, it has never, as far as I know, been alleged or pretended, that anything but benefit ensued from the issue which took place on that occasion. When the gold came back from abroad, and it was actually coming back rapidly even at the moment of the crisis, the one-pound notes, after performing the special mission assigned to them, were withdrawn again from the circulation, with very little delay and without the slightest trouble. Had the experiment been thought of earlier, some portion of the severity of the crisis might very possibly have been spared: and, if it so

eminently succeeded on that occasion, I do not see why, with more knowledge and better preparation, measures of the same character may not be tried with success again. Far indeed from considering the course adopted by the Bank Directors throughout the latter part of the catastrophe of 1825 as, either in this or any other of its features, a course to be distrusted or shunned, I have always been inclined to regard it rather as an illustration of a great principle, and an important lesson and example for after-times.

And this brings me at length to my conclusion. I have for some time been looking almost with despair, at the increasing bulk to which my materials have been gathering on my hand, and which, I fear, will not improve their chance of usefulness, while it gives to my publication an air of pretension which, I am sensible, does not become a treatise so hastily got up, and which I should willingly, therefore, have avoided. I sat down to write a pamphlet, and it has grown into a book. However, it is now too late to think of re-arrangement or condensation; and such as it is, I cast it on the waters. In the course of an inquiry so intricate in its bearings, I can scarcely hope to have escaped blunders, especially when I see what daily befalls men whose experience and acquirements upon these subjects are so much superior to mine. I feel too, that I stand at peculiar disadvantage in this respect, from having had no personal familiarity with the details of business in this country. But I shall have gained my object, if I shall be fortunate enough to have thrown out any suggestions which may set others a-thinking.

If, in the course of my argument, I have had occasion more than once to speak my mind somewhat freely, both as to measures and doctrines, I trust that nothing which I have uttered will be interpreted into any intentional disrespect towards their authors. And I am sure no one who knows me, will suspect me of the smallest disposition to further the ends of a cabal, or to lower ministers in the

public estimation. Sir Robert Peel's general administration has probably few more unqualified or consistent admirers than myself, or who more ardently desire its continuance. And I can only lament, that on this particular subject he should have allowed himself to act on opinions, which, with every deference, I must believe to be fundamentally and mischievously erroneous. I regret the course which has been adopted the more, from the high value which I set on the principle of convertibility, and my anxiety to see the standard of our currency maintained through all vicissitudes in its full purity. I fear that these ill-judged measures, intended for the preservation and support of the standard, may ere long lead to results of which the odium will be reflected on the standard itself, and may endanger not a little its repute and stability; for men are never so prone to rush into opposite and wild extremes of acting and thinking, as when shocked by any practical and stringent refutation of principles, which had always passed with them for the most undoubted truths, because never before exposed to a practical ordeal.

SUPPLEMENTARY CHAPTER.

Of the Practical Working of the New Bank Act.

WITH respect to the immediate consequences to be anticipated from the operation of this measure for limiting the future issues of the banks, I ventured to suggest, at the commencement of the preceding dissertation, that so long as “exchanges should continue favourable, interest low, and *the stock of bullion overflowing*, all would no doubt proceed smoothly, and *the unruffled aspect of monetary affairs would be cited and allowed as a proof of the beneficial operation of the new system.*” That such would be the natural and probable course of circumstances, it required certainly no extraordinary reach of sagacity to foresee; and I may remark, therefore, with the less reserve, how completely and literally the event is now justifying the prediction. Since the new Bank Charter came into operation there has been some fluctuation, certainly, in the Bank’s stock of bullion, but none, I believe, which may not be satisfactorily accounted for from circumstances of internal demand, from the necessity of replacing the old coin which had been so largely withdrawn from all the usual channels of circulation during the recent process of recoinage, or from the calls of the country bankers, who had to provide a substitute for a certain portion of their issues, without supposing any extraordinary increase of the exportation to foreign countries. In point of fact, I may say there has been no such increase of exportation. Between the 7th of September, the date of the first return of the liabilities and assets of the Bank of the England, according to the

form prescribed by the new act, and the corresponding date in the present month of December, the decrease of the bullion has in reality amounted to only 564,087*l.*, so that the Bank still possesses a treasure of 14,644,973*l.* And if there have been extensive investments going on all the while in foreign loans and foreign railway schemes, these operations have not yet been carried to such an excess as to turn the exchanges. Neither has the slight advance in the market rate of interest been sufficient to affect the price of the funds, nor does it hold out much promise of permanence. On every side, as far as can be judged from the surface, whatever may be the inward misgivings or dark anticipations of the future, "the aspect of monetary affairs" is as "unruffled" as can be. And it is edifying to remark, with what grave complacency all this and much more is daily attributed, in city articles and brokers' circulars, to the "*admirable working of the new Bank Act.*"

By the salutary operation of this act, we are told, a check is imposed on all speculative and extravagant projects; capitalists are deterred from parting with their funds for long prospective periods; the prices of property are kept down: it has even been discovered, that the merchant's profit is lessened; and speculation, we are assured, is quite expelled from the produce market, though all articles of import are so low as scarcely to pay the costs of production and transport. On the occasion of a small loan for Canada being put up the other day for tender, it is remarked by one, that the Bank of England abstained from making any offer, by another, that no private banker was among the competitors; and our attention is specially invited to the fact, that, though there had been an advance of 2 per cent. in consols since the last loan of the same description was negotiated, there was no corresponding advance in the biddings in the present instance,—that, on the contrary, the loan was contracted for at a price one half per cent. below that which had been obtained on the preceding occasion,—and

all owing to the caution imposed on banks by the new banking law. Wonderful measure! which can achieve so many and such important effects before it has even attained for itself a practical or palpable existence!

I know not if it will be deemed by Government among the beneficial consequences of the new law, that it has deprived the Exchequer of an advantage of $2\frac{1}{2}$ per cent. in the negotiation of a loan. But I may be permitted to observe, that, in the beginning of May last, when the last loan for Canada was negotiated, though the contemplated rigours of the new Bank Bill were then wholly unsuspected, the Bank of England took no more part in the competition than on the present occasion, neither did any of the other bankers, with the exception of one joint-stock establishment, which sent in an unsuccessful tender for a sum but little exceeding one-third of the loan. There was nothing therefore, surely, in the least remarkable, or requiring any special explanation, in the circumstance of there being no bankers among the bidders for the loan which has been just contracted for. In fact, it is only in very peculiar conditions of the money market, that a security of this description can be at all a desirable investment for the funds of a bank. With respect, again, to the low state of prices in the markets for foreign produce, I believe I shall be borne out by the testimony of every one competent to give an opinion on the subject, when I affirm, that in each instance it is fully accounted for by the superabundant supply of the commodity. There are no grounds at present in any case, for anticipating an early diminution of that supply; there exists, therefore, no rational inducement to speculate in any given article; and we are still far from that point in the revolution of the monetary circle, at which all regard to the relations of supply and consumption is cast aside, and the speculator dashes at all commodities indiscriminately. But it is somewhat too much to tell us, that the spirit of speculation itself is under correction, or that it either wants objects, or is at all de-

ficient in its wonted ardour, when we hear of subscriptions to railway schemes for the British Islands alone, now prepared and under discussion before the Board of Trade preliminary to their being submitted to Parliament, to the unheard-of amount of one hundred millions sterling; to say nothing of the vast daily contributions to foreign projects of the same description, the large sums in continual course of transfer into the stocks of foreign governments, and the recent investments in new buildings and machinery in our own manufacturing districts! This fact alone, one should imagine, might, without supposing the intervention of more extraordinary causes, be received as a sufficient explanation of any languor of speculative enterprise that may be observable in other directions. A single class of projects already in active existence, of a magnitude to absorb an hundred millions of capital, with many others of the same stamp still in the background, ought surely to be provision ample enough, for some time to come, to satisfy the cravings of accumulators, and a guarantee, not likely to fail us, of as much waste, improvidence, and jobbery as may be necessary to perfect the cycle, and in the fulness of time to relieve us of a due proportion of that flood of wealth which is oppressing us.

That the public mind is not at ease as to the probable operation of the restrictive clauses in the Bank Act, may all the while be perfectly true; and we know as much, indeed, from signs that cannot be mistaken, though the fact certainly has not manifested itself in any striking indisposition to hazardous investments on the part of the public generally. There is an ominous uncertainty hanging over the future. A portion of the resources which constitute the strength of the Bank of England has always heretofore consisted of the capital which it is enabled to borrow, or by the loan of its credit to assist others in borrowing, on its promissory notes: to the exercise of this power in seasons of emergency, there has

hitherto been no other limit than the capacity of the market to receive and circulate such notes—or, in other words, than the public demand; but, by the operation of the new law, this faculty of borrowing on its promissory notes is placed under such rigid restrictions as, under circumstances such as have occurred before and may occur again, would have the effect of diminishing the resources which the Bank has been accustomed on such occasions to bring into action, to the extent possibly of five or six millions. The practical effect of the measure, therefore, considered under this point of view, is very much the same, as respects the public, as if a reduction of five or six millions had been effected in the Bank's capital. Now, it may be considered as certain, that the quantity of available capital which the market at any given time is capable of supplying, can neither be increased nor diminished by any regulations of this description. The utmost effect of the restrictive clauses of the new act can amount to no more than this, that the five or six millions in question will no longer be at the disposal of the Bank of England. That it will not therefore be lost, but will eventually, through one channel or another, be rendered ministrant to the purposes of industry, there can, I apprehend, be no doubt. But, in the meanwhile, the mechanism by which it would have been distributed under the old system will have been destroyed. In what manner, or by what instruments, it is to be made available, or whether it will be available at all at the proper time, is wholly unknown. Undefined and mysterious dangers are usually magnified in the anticipation; and the only wonder is, that the painful apprehensions which the novel position of the Bank of England is calculated to excite, should not have been more decidedly manifested than it has been, in the conduct of those whom it more immediately affects.

But, whether the fear and distrust which the actual prospects of the money market are calculated to engender, have taught men a lesson of prudence, and are

now staying for a moment that tide, which nevertheless is hourly acquiring new force in secret and must ere long inevitably overbear all such petty opposition, or the contrary, it is obvious, that none of these supposed results can be regarded, as any test whatever of the *working* or the *merits* of the new banking law. Up to this time, the restriction on the issues of the Bank of England has never come at all into operation, nor is likely to do so for a considerable time to come. And if a dread of the consequences which that restriction may produce, when it does operate, has given rise in any instances to timidity or caution of action, the same effects would equally have resulted from any other vague alarm of the same intensity, whatever might have been the cause in which it originated. If half the banking capital of the country could be suddenly cancelled by a dash of the pen, no doubt many of those who had previously been accustomed to depend in their commercial transactions for extensive aid from the banks, would be consigned for a time to their own resources, and obliged to exercise a degree of circumspection and forbearance which, under the circumstances of the case, might be more salutary than agreeable. But it does not follow, that such a contraction of the general banking capital would in itself be an event expedient or desirable. The alarm which arises in such cases is a circumstance altogether apart from any question, as to the nature or policy of the measure in which it originates. The measure may be good or bad, wholesome or unwholesome. If, on the mere fact of the alarm, indeed, any presumption could fairly be raised, it would be rather against the measure than in its favour; for it is the anticipation of evil which ordinarily engenders apprehension. But the existence of such apprehension proves in reality nothing more than the state of opinion at the time, and is not to be argued on as affording any positive criterion, in one way or another, of the ultimate tendency of the proceeding.

The only portion of the restrictive system imposed by the new Bank charter, of which we have hitherto had the least real experience in practice, is that which relates to the issues of the country banks. This is the period of the season when the country circulation is usually enlarged, in consequence of the state of agricultural operations, and the amount of the advance which the farmer requires from his banker pending the completion of his annual sales. The full employment for labour also just now existing in the manufacturing districts, and the consequent rise of wages, together with the number of public works everywhere in progress, may be supposed to have required some small addition to the circulating medium in other localities. The demands arising out of these circumstances, it would appear, the country bankers, owing to the restraints imposed upon them by the new law, have not in all cases been able to meet. The aggregate issues of those bankers, it is true, are still considerably short of the sum of 8,600,000*l.*,* the apparent maximum to which they are limited by the operation of the Act. But, in order to ensure their current business from interruption, and at the same time guard against any casual infractions of the statute, which might bring them under its penalties, they have found it necessary, it seems, to confine their actual issues considerably within the boundary prescribed by law; so that, in as far as experience yet warrants any conclusion on the subject, the *real* maximum of the country issues permitted by the Act, that maximum by which alone the banker can safely venture to regulate his transactions, is, and according to all present anticipations must continue to be, nearly ten per cent. less than the *apparent*

* Since the passing of the Bank Charter Act, this aggregate has been reduced, but only in a very insignificant proportion, in consequence of two or three small banking establishments having entered into arrangements with the Bank of England, for withdrawing their respective note circulations. The whole amount of the reduction, I understand, comes only to about 29,700*l.*

maximum. Now, this *real maximum*, it is understood, has in the great majority of cases been already attained. And, in order to meet the exigencies which have lately arisen in the country districts, many of the country bankers have consequently found it necessary to resort either to the Bank of England or to their London correspondents, for very considerable (and for this season, very unusual) supplies both of Bank of England notes and gold; while others have found it more convenient, to withhold or curtail their customary advances to the farmers. The amount thus transferred from the metropolis to the provinces, in notes and coin together, has more probably exceeded rather than fallen short of half a million sterling; yet it has been so far from adequate to the public wants, that, in various parts of the country, the contraction of the ordinary banking accommodations, as I am credibly assured, has already been productive of very serious inconvenience and difficulty. At all events, to such extent as these circumstances have prevailed, the framers of the Bank Charter Act may undoubtedly congratulate themselves on having already given us a foretaste of several of the important results contemplated by that measure. They have succeeded, (though it may be only *pro tempore*, and under circumstances which preclude any immediate apprehension of injurious consequences), in alienating to provincial uses, which would have been just as well served without them, a portion of the now limited circulation of bank-notes allotted to the metropolis and its existing dependencies, thereby narrowing still further the limit imposed by the Act on that branch of the general circulation. They have further been in some degree accessory to the dispersion of a portion of that specie, which had been previously treasured up in the great depôt in Thread-needle-street for national purposes of the last importance, to be wasted for the future in the performance of various supererogatory and gratuitous offices, at spots where it

can never be turned to any earthly purpose of real utility. And they may, lastly, claim the merit of having given at length some sort of check to those much-denounced enormities of the banking system in the country—those periodical advances for the cultivation of the soil, so heinous in the eyes of every true believer in the doctrines of over-issue, redundancy, and depreciation. At all events, it may be fairly alleged, that it will be no fault of theirs, if the agricultural operations of the year shall not have been seriously impeded from this deficiency of banking accommodation.

But this, I apprehend, has been the utmost progress hitherto of the great “experiment.” Up to this hour, the limitation of the issues of the *Bank of England* has remained a dead letter, and such it must continue so long as the stock of bullion in the possession of the Bank exceeds by more than eight millions as at present, or indeed exceeds at all, the measure of the public demand for bank-notes in excess of the fourteen millions which the law permits the Bank to issue on credit, and as a favourable exchange is daily reinforcing that stock with fresh supplies. There has not hitherto, as far as I am aware, occurred a single movement or act on the part of the Bank, in either of its departments, having the remotest reference to the restriction imposed on its issues. Far from evincing any disposition to withhold a supply of bank-notes fully commensurate with the public demand, we find the banking department openly adopting the policy which, by the separation of the departments, had been left free to its choice,—lowering its charges of interest to the market rate, and entering into a competition with the private bankers and bill-brokers for a share of their discount business. How then is it possible to ascribe the existing phenomena of the money market, or any of them, to the *working* of the *restrictive* clauses of the new Bank Act—of clauses which, it is thus obvious, have never been in work at all?

When, by the course of trade, the stock of bullion in the Bank shall be reduced to a level nearly corresponding with the amount of its notes circulated in excess of the fourteen millions issued on credit, when the treasury of the banking department shall be exhausted, and its means of solvency shall have become wholly dependant on the sale from day to day of its securities, then, and not till then, will the "experiment" be fairly on its trial; and it is evident a long time may yet elapse before that contingency arrives. In the meanwhile, we can only guess at ulterior results; and the contrivers and advisers of the measure themselves can do no more. Now, without any disposition to undervalue the importance of experimental inquiry to the advancement of knowledge, it may, perhaps, be allowable to doubt, whether this process of experiment be quite the most legitimate method of dealing with cases like this, where a large amount of human suffering may be contingent on the trial. It has been, I rather believe, the more approved practice of statesmen hitherto, to take their instruction from the lessons which history and observation are daily presenting to them unbidden, without seeking to create new combinations for themselves, and prosecute discoveries in legislation, at the expense or risk of those whose welfare is specially entrusted to their keeping. Such experiments bear too close an analogy to the random practices of the empiric on the living body, to have much claim either on our faith or favour. By any one, more especially, who is in the least danger of being personally made their subject, they are not likely to be regarded with the most agreeable associations. And, above all, where every circumstance conspires, as in the present case, to strengthen the conviction, that the "experiment" can end only in mischief or failure, it will scarcely be expected of those who have become deeply impressed with that conviction, that they should testify any sympathy with its progress, other than such as is evinced in their unceasing endeavours to

arrest it. Thus impressed, such persons cannot but earnestly desire, that the experiment, if it may not be spared altogether, should at least be suspended, until the whole of the principles, on which this limitation of the bank-note circulation of the country has been pronounced necessary, shall have undergone a more searching scrutiny.

If those principles can really and fairly be upheld on broad, honest, and enduring grounds, the stain which has been cast upon them cannot be too soon wiped off, and their vindication made manifest to the world. But let us be sure of the foundations on which we are treading. Of all courses, in a case of this vital importance, surely there is none so much to be deprecated as that of suffering ourselves, from mere considerations of punctilio, to proceed blindly on, groping along a path of so much danger, wishing at every turn that all may be right, yet afraid to face manfully the various doubts which arise, and clinging by preference to the delusion, that there may still be such a thing in nature as an over-issue, and that this may, after all, be the true way to keep it down. It is certainly within the chapter of possibilities, that the restrictive clauses of the Bank Act may, even before they are called into effective action, be reduced to a mere nullity, by some happy development of those remedial resources, which credit, judiciously administered, can always bring into play under the pressure of any strong necessity, or that their worst consequences may be avoided by a resort to the safety-valve of the bank-post-bills, or some other similar measure of evasion. In that case, there will be no undue contraction of the circulation, no refusal of the accustomed supply of capital; the great purpose of the authors of the restriction will have been simply defeated or abandoned; and the event will be at once an infinite relief to the public, and the *euthanasia* of this first attempt to legislate on the principles of the currency theory. The law, nevertheless, may still remain unrepealed; and it is even possible, that there may be found

persons to cry up this failure as only a new proof of its "admirable working!" The course of events, however, which, if the spirit in which the restrictive clauses of the Bank Act are framed, is to be consistently acted up to, must be considered, I fear, as by far the most probable, would lead to a very different termination. And although that termination also might, no doubt, be liable to manifold modification from circumstances, a state of circumstances can well be imagined, in which the catastrophe would be as tremendous as it would in all likelihood be sudden and irretrievable, shaking even to its foundations the entire financial fabric of the realm.

THE END.

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